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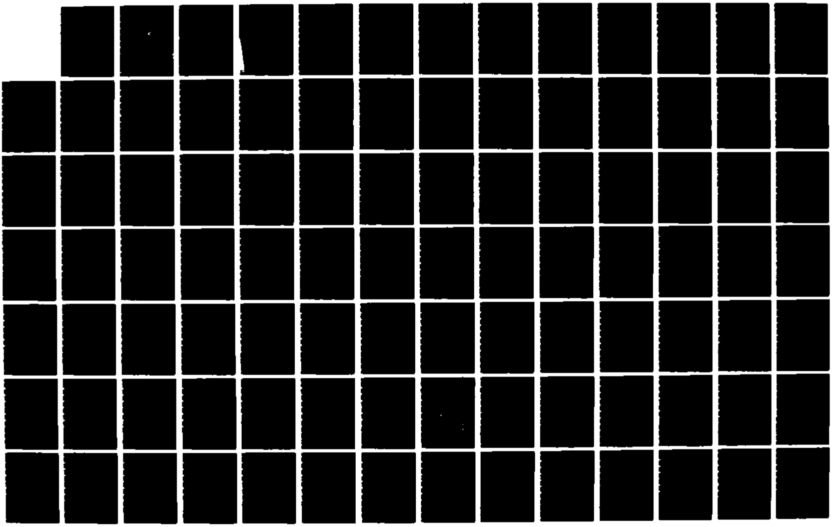

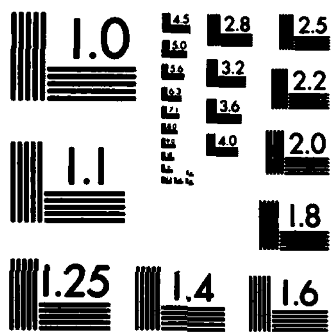

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NAVAL POSTGRADUATE SCHOOL

Monterey, California

THESIS

AN EVALUATION OF THE NAVY RESALE SYSTEM'S OPERATING AND FINANCIAL STATEMENTS

by

Michael Stephen Barnett

March 1984

Thesis Advisors: K. Euske
J. F. Mullane, Jr

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This thesis contains an evaluation of the Navy Resale System financial and operating statements used to manage the sales activities from the headquarters, region, main, and branch levels. Navy Resale System (NRS) statements are compared to the National Retail Merchants Association's (NRMA) statements presented in the Retail Accounting Manual and to statements provided by major retailers.

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An Evaluation of the Navy Resale System Operating and Financial Statements

by

Michael Stephen Barnett
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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
March 1984

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ABSTRACT

This thesis contains an evaluation of the Navy Resale System financial and operating statements used to manage the sales activities from the headquarters, region, main, and branch levels. Navy Resale System (NRS) statements are compared to the National Retail Merchants Association's (NRMA) statements presented in the <u>Retail Accounting Manual</u> and to statements provided by major retailers.

From the results of the evaluation a number of conclusions are drawn. To summarize the Navy Resale System statements are essentially sound. However, change is needed in expense statement and leased sales presentation to communicate a better picture of how the Navy Resale System compares to other major retailers.

TABLE OF CONTENTS

I. INTRODUCTION

A. GENERAL INFORMATION

The military exchange system consists of retail store operations located on bases throughout the world. This organization of stores had sales revenues which exceeded 6.3 billion dollars in Fiscal Year (FY) 1982. In comparison to the countries leading retailers, in 1982 the military exchange system's total sales ranked in fifth position behind Sears, K mart, J. C. Penny, and Federated Department Stores. [Ref. 1: p. R121]

The Navy Resale System FY 1982 total sales exceeded 1.5 billion which equates to approximately twenty-three percent of the total military exchange sales. These sales would place the Navy Resale System in twenty-third position in relation to the countries retailers. [Ref.1: p. R121]

Generation of such revenues places the Navy Resale System in the category of "big business." As such an operation, it should follow the precepts of sound management and proper accounting.

B. NEED FOR A STUDY OF THE NAVY RESALE SYSTEM FINANCIAL OPERATING STATEMENTS

For management and fiscal control information, the executives of the Navy Resale System rely on operating and

financial reports provided by the Navy Resale and Services Support Office. These operating and financial reports must contain data which is accurate, clear, and concise.

The Commander of the Navy Resale and Service Support Office has expressed concern that there may be a lack of properly presented financial management information available to the Navy Resale System and has requested that this study be undertaken. [Ref. 2]

C. OBJECTIVE AND SCOPE OF THE THESIS

The objective of this thesis is to determine what operating and financial information should be made available to headquarters, region, main, and branch levels of the Navy Resale System to properly manage the local sales activities.

The scope of this thesis is limited to a review of Navy Resale System reports and to provide recommendations for their improvement. It is beyond the scope of this thesis to provide an economic analysis of such recommendations or implementation procedures.

This thesis introduces general retail accounting and reporting standards as provided in the National Retail Merchants Association, Retail Accounting Manual. Based on an analysis of current literature common weaknesses and ways of improving the effectiveness of management reports are described. This information is provided to not only make improvements in what information should be provided but also

to explain how the information should be provided to encourage its use. The thesis reviews current retail operating and financial reports provided by major companies within the retailing industry to determine to what extent the retailing industry follows the Retail Accounting Manual.

D. METHOD OF RESEARCH

A review of the literature that was available from the following data bases was completed:

1. Defense Logistics Studies Information Exchange, U. S. Army Logistics Management Center, Fort Lee, Virginia.
2. Defense Technical Information Center and Defense Documentation Center, Defense Logistics Agency, Cameron Station, Alexandria, Virginia.
3. The Naval Postgraduate School Thesis, Technical Reports, and General Collections, Monterey, California
4. DIALOG Information Retrieval Service, Lockheed Missle and Space Co., Inc., Palo Alto, California.

Letters were sent to the top twenty retailers, in sales volume, as listed by Standard and Poors, November 1981 edition of Industry Surveys and to the Army and Air Force Exchange Service in an attempt to obtain operating and financial reports representative of the major retailers. Responses were received from nine of the retailers including the Army and Air Force Exchange Service. Of those nine, six retailers supplied various operating and financial accounting reports.

Interviews were conducted with twelve executive level personnel at the Navy Resale and Services Support Office and

seven executive level personnel at the region and exchange level.

E. THESIS ORGANIZATION

The first chapter briefly introduced the magnitude of the Navy Exchange System and presented the impetus for the research. It also delineated the author's objectives and research methodology.

Chapter Two provides the reader with an introduction to retail accounting and the reports currently suggested by the National Retail Merchants Association. It also provides techniques to improve the effectiveness of management reports as well as common weaknesses of management reports.

Chapter Three provides a description and discussion of operating and financial reports used by the private and public sector.

Chapter Four provides a description and discussion of operating and financial reports used by the Navy Resale System.

Finally, in Chapter Five, the author makes comparisons between the National Retail Merchants Association, private, public, and Navy Resale System reports. Conclusions and recommendations are then drawn based on the comparisons and the retail accounting standards provided in the Retail Accounting Manual.

II. RETAIL ACCOUNTING AND REPORTING

A. INTRODUCTION

This chapter describes the various aspects of retail accounting in accordance with today's generally accepted procedures and norms. The topics covered are merchandise accounting, expense accounting, management reporting, and the improvement of management reports. The Merchandise Accounting section defines the various types of departments in retail stores and the computation of gross margin for these departments. The Expense Accounting section describes the recommended method of segregating expenses for expense control. The Management Reporting section provides the rationale for various management reports and suggested formats for each type report. In the section on improving management reports, techniques for improving reports are described and some of the major weaknesses in current reports are delineated.

B. MERCHANDISE ACCOUNTING

1. Departments Within Retail Stores

As defined by the National Retail Merchants Association (NRMA) in their *Retail Accounting Manual* (RAM) departmentalized stores are organized in a series of departments "for the purpose of maximizing efficiency and

control in either selling merchandise or rendering services." Departments differ in the nature of an item or service sold, the method of inventory valuation, and their relation to other departments. The NRMA has defined six principal types of departments as follows:

a. Retail Inventory Departments

Retail inventory departments "sell merchandise to the public, using the retail inventory method of accounting to determine departmental inventories at retail and at cost, and to compute [owned retail] gross margin." (Owned retail gross margin refers to the gross margin of departments which are owned by the store versus the gross margin of leased or licensed departments.) Basic merchandise such as hardware, fashion goods, linens, stationery, jewelry, notions, housewares, and luggage, as well as other typical department store merchandise are usually sold in retail inventory departments.

b. Cost or Non-Retail Selling Departments

Cost or non-retail selling departments, otherwise known as service departments, carry inventory on hand at cost only, versus cost and retail. Typical cost selling departments are beauty salons, flower shops, custom order departments, gift wrapping, repair departments, restaurants, and engraving. Inventory in these departments consists of

supplies necessary to perform the service involved; not finished goods for resale.

c. Contract Departments

Contract departments sell merchandise at wholesale prices to business and institutional purchasers such as hotels, restaurants, hospitals, and churches. The orders placed by these businesses are normally very large, therefore, prices charged are considerably lower than the normal retail prices charged for the same items to a store's regular customers. Items normally sold in this manner are furniture, linens and domestics, and china and glassware.

d. Leased or Licensed Departments

Leased Departments are merchandise or service departments operated by independent companies under contract or lease. Usually these departments are highly specialized in nature or require a heavy investment in equipment which the store does not desire to make. Examples of these departments might be shoe or shoe repair, auto repair, vending, beauty salons, photo studios, pharmacies, and optical shops. In return for the permission to operate such a department the independent firm pays a fixed percentage of their sales to the lessor store. Normally, a leased department follows the store policies and procedures and is presented to the patron as if it were just another part of the store.

e. Workrooms

Workrooms are departments that ordinarily deal with alterations and repair of merchandise sold in retail departments. However, workrooms also set-up, assemble, and finish merchandise before it is put on sale. Because there is a similarity between workrooms and cost selling departments, guides were established by the NRMA as an aid to proper classification. The NRMA guide states that:

A department should be considered a merchandise service workroom if:

1. its operations and income are substantially involved with services performed for the principal retail department(s);
2. its revenue is used only as an offset against the workroom's cost, and is not included in the principal retail department's sales;
3. the amount charged for services performed is sufficient to enable the workroom to operate at or near the break-even point; and
4. it neither manufactures an item nor, in effect, converts merchandise into a finished product.

The more common types of workrooms are drapery, engraving-glassware and stationery, furniture, men's and boy's clothing alterations, and monogramming workrooms.

f. Miscellaneous Revenue Operations

Miscellaneous revenue operations consist of various services which stores furnish at a nominal charge to patrons. Some of these services are delivery and layaway

charges, check cashing, money order sales, pay toilets, and scales. [Ref. 3: pp. V1 - V4]

2. Computation of Gross Margin

The NRMA has suggested that the various departments' gross margin be split into three major groups, Owned Retail Departments, Owned Cost Departments (including Contract), and Leased and Licensed Departments instead of grouping them into one total amount.

In general, gross margin for owned departments is derived by subtracting from net sales the net cost of merchandise sold, workroom loss or gain, and other costs of sales. The detailed method for computation of gross margin for owned retail and cost departments, as provided by the RAM, are described in Appendix A.

Leased or licensed departments differ from an owned department in that its merchandise does not, per se, have a merchandise cost or a gross margin. Instead, reported gross margin for these departments is the net sales less the gross commission. The RAM states,

> For development of departmental operating statements, leased department commissions are considered as part of gross margin. In the development of financial statements, leased department sales and commissions are shown separately from owned departments. [Ref. 3: pp. V13-V15]

C. EXPENSE ACCOUNTING

Expense accounting improves profitability through the control of operating expenses. This is done by accumulating

operating expenses into expense centers and then holding the center's management responsible for controlling expenses by comparing actual to budgeted and prior years' figures.

The NRMA's Retail Accounting Manual (RAM) describes in detail how expenses should be recorded and reported. This section discusses the basic concepts of expense recording and reporting. A detailed presentation of expense recording is provided in APPENDIX B.

1. Expense Centers

For the RAM to serve the needs of not only large store chains but also small, one man operations, 10 expense summaries were created, with 44 expense centers and 22 subexpense centers. The smaller operations need only use the 10 expense summaries that follow:

010 Property and equipment

100 Company management

200 Accounting and management information

300 Credit and accounts receivable

400 Sales promotion

500 Services and operations

600 Personnel

700 Merchandise

800 Selling and supporting services

900 Merchandising

A company may use as many of the 44 expense centers as they desire to provide needed expense breakdown. Some of

the largest companies may even find it preferable to add more expense centers. An example of the breakdown possible is shown below using expense center 800, selling and supporting services:

800 Selling and Supporting Services

- 810 Selling Supervision
- 820 Direct Selling
- 830 Customer Services
- 840 Selling Support Services
- 860 Central Wrapping and Packing
- 880 Delivery

If all the expense centers are not used, the NRMA has suggested the management expense centers ending with "10" be used to accumulate items of expense for unused expense centers. Using the expense summary above, a firm might want to use the expense center 820-Direct Selling and then accumulate all other expenses in expense center 810-Selling Supervision.

An even more detailed breakdown can be made using subexpense centers. The 820-Direct Selling expense center can be divided into the following subexpense centers:

820 Direct Selling

- 821 Retail Selling Departments Salespeople
- 823 Interior Decorators
- 824 Cost Selling Departments Salespeople

826 Floor Cashiers and Wrappers

828 Forward Stock Maintenance

2. Natural Divisions

The RAM classifies 17 types of expenses which they identify as natural divisions besides accumulating the expenses by areas of activity. Some of the largest firms may desire to add more natural divisions, however the 17 natural divisions that follow should be sufficient for most firms:

01 Payroll

03 Media Costs

04 Taxes

06 Supplies

07 Services purchased

08 Unclassified

09 Travel

10 Communications

11 Pensions

12 Insurance

13 Depreciation

14 Professional services

16 Bad debts

17 Equipment rentals

18 Outside maintenance and equipment service contracts

20 Real property rentals

92 Credits and outside revenues

Additionally, three transfer accounts are identified by the RAM as an aid to transferring expenses between expense centers:

02 Allocated fringe benefits

90 Expense transfers-in

91 Expense transfers-out [Ref. 3: pp. II 1-III 5]

The allocated fringe benefits transfer account (Acct # 02) is used to redistribute actual expenses accumulated in Expense Center 660- Medical and Other Employee Services and Expense Center 670- Supplementary Benefits to all other expense centers having a natural payroll division. The remaining transfer accounts (Acct # 90 and 91) are needed to effect a transfer from one expense center to another in order to properly reflect the actual operating costs of the expense centers; the amount to be transferred out of an expense center is the composite of several natural divisions.

3. Expense Comparisons

Why is there a need for expense centers if all expenses are also tracked by natural division? The National Retail Merchants Association states,

> Because of the increasingly diversified manner in which stores are performing identical activities, comparisons by natural divisions are becoming more meaningful as the valid basis for such comparison. This comes about principally because with mechanization and the use of more sophisticated equipment, the number of people and the resulting payroll expense are reduced, while the amount of depreciation and equipment rental cost is increased. In

other instances, greater reliance on outside service bureaus and service agencies are similarly replacing payroll and supply expense in the expense center concerned. Therefore, comparability by natural division diminishes, although comparability by expense center remains significant and valid. [Ref. 3: p. II-10]

D. MANAGEMENT REPORTING

This section describes management reports that are suggested as necessary by the National Retail Merchants Association (NRMA). Included are the various retail merchandise departments reports, cost or non-retail operation departments reports, expense reports, branch store reports, and top executive level reports.

1. Merchandise Department Performance Statistics

a. Merchandise Department Statistics

Merchandise department statistics are developed on owned retail inventoried merchandise as a means to measure a department buyer's performance. Through the review of a merchandise department's total company performance and other direct expenses over which a buyer has control management may evaluate a buyer's performance.

The NRMA has stated,

> Departmental expense distribution is a matter in which considerable latitude must be allowed. Hard and fast rules cannot be applied. The distribution of expenses to selling departments poses problems on which many differing views are held.

In general there are two approaches to departmental expense accounting; the Net Profit Plan and the Contribution Plan.

The Net Profit approach is a full cost approach which requires the allocation of indirect expenses in addition to direct expenses. The supporters of this method believe that it produces a profit figure that can be used to judge the operations of the department and that it develops some degree of responsibility by the buyer for the departments profit performance. The Net Profit approach has certain disadvantages. First, the buyer is not in a position to have any affect on the expenses pro-rated to his or her department. Second, it is difficult to develop a reasonable or meaningful basis for proration which usually leads to the use of sales as the proration base and the subsequent concealment of the department's true performance picture. Third, the allocation of expenses can be both costly and time-consuming. Finally, most expense control is the responsibility of operating and sales supporting activities, not the selling department.

The Contribution approach, on the other hand, accommodates both the measurement of department results and evaluation of a buyer's performance without the disadvantages above. The contribution approach is based on the concept that each selling department generates a gross margin on its sales as well as related direct expenses. The difference between these direct expenses and the gross margin produces the contribution. The RAM states, that

expenses used in figuring contribution are different depending on whether you are computing a selling locations contribution or a total company contribution. This difference is caused by the expansion from single store to multi-store organizations. In the single store operation the department buyer is responsible for all departmental expenses including those related to acquisition, distribution, promotion, and selling of merchandise. In the multi-store organizations the sales manager is responsible for selling location expenses while buyers are held responsible for acquisition, distribution, and promotion of merchandise as well as other expenses that are performed on a central basis and cannot be associated with a single selling location. Expenses which cannot be associated with a single selling location cause the difference between the summation of all selling location contributions and the total company's contribution.

b. Merchandise Department Performance Reports

Merchandise department reporting differs for multi-store operations as compared to single store companies, since both the selling location and central organization expenses are accounted for separately. This results in the need for two merchandise department reports, one for the total company and another for the selling locations. The NRMA suggested reports may be seen in Exhibits 2-1 and 2-2. Though these are only suggested formats, the information

DEPARTMENT TOTAL COMPANY CONTRIBUTION

Department ______________ Period __________ 19 ______

	PERIOD						YEAR-TO-DATE					
	This Year		Plan		Last Year		This Year		Plan		Last Year	
	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%
Gross Sales												
Returns-% to Gross Sales												
Net Sales-% Increase Last Year												
Merchandise Cost-% to Net Sales												
Markdowns-% to Net Sales												
Stock Shortage-% to Net Sales												
Purchase Discount-% to Cost Purchases												
Workroom Cost-% to Net Sales												
Other Cost of Sales-% to Net Sales												
Gross Margin-% to Net Sales*												
Dept. Mgr. & Ass't P/R-% to Net Sales												
Clerical P/R-% to Net Sales												
Travel-% to Net Sales												
Net Newspaper-% to Net Sales												
Other Direct Advertising-% to Net Sales												
Department Contribution-% to Net Sales												
Gross Transactions												
Average Gross Sale												
T/O on Average Retail Stock												
Gross Margin $-per $ Avg Cost Inventory												

* See Chapter V Sec D 3

EXHIBIT 2-1 DEPARTMENT TOTAL COMPANY CONTRIBUTION

DEPARTMENT CONTRIBUTION BY SELLING LOCATION

Page One

Department ______________ Period ______________ 19____

STORE		Gross Sales		Returns % to Gross Sales		Net Sales % Increase		Merchandise Cost Incl. disc. % to Sales		Markdowns % to Sales		Stock Shortage % to Sales		Workroom and Other Cost of Sales % to Sales			Gross Margin % to Sales	
		Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%		Am't	%
	TY PL LY																	
	TY PL LY																	
	TY PL LY																	
	TY PL LY																	
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	TY PL LY																	
	TY PL LY																	

EXHIBIT 2-2 DEPARTMENT CONTRIBUTION BY SELLING LOCATION

DEPARTMENT CONTRIBUTION BY SELLING LOCATION

Page Two

Department ______________ Period ______________ 19____

STORE			Department Supervision % to Sales		Salespeople Payroll % to Sales		Dept Supplies % to Sales		Sales Promotion % to Sales		Other Direct & Assigned Expenses % to Sales		Dept. Contrib. % to Sales		Sales % of Common Base	Sales per Sq Foot	Gross Margin Dollars Per Sq Foot
			Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	%	Am't	Am't
	TY PL LY																
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EXHIBIT 2-2 DEPARTMENT CONTRIBUTION BY SELLING LOCATION

provided is considered the minimum necessary for proper evaluation of a departments gross margin performance.

In producing a total company contribution figure the Department Total Company Contribution report, Exhibit 2-1, uses only direct expense items which are easily obtainable and relatively meaningful on a total company basis: merchandising and buying costs, and advertising media costs. Other costs, such as merchandise distribution expense, can be added to the report if a company feels the added costs of computations are worthwhile and necessary in measuring company and buyer performance. The more expenses allocated to a department, the closer the report approaches the net profit or full cost approach.

The Department Contribution By Selling Location report, Exhibit 2-2, uses direct selling expenses that are related to a selling location such as selling payroll and supplies. In addition there are other valuable departmental statistics which can be used in evaluating a department's performance by selling location. Two of these, sales per square foot and gross margin dollars per square foot are shown on Exhibit 2-2. [Ref. 3: pp. VII 1-3]

2. Cost or Non-Retail Operation Reports

In the previous section the discussion covered merchandise departments that are controlled by the retail inventory method. Departments that are normally considered

cost or non-retail departments are not suited to the use of the retail inventory method, since they do not have inventories or purchases at retail and are not concerned with markons (markon is the increase in price between cost and retail used to cover direct expenses, overhead, and generate a profit) as an element of recordkeeping. In addition these departments usually do not have problems of markdowns (markdown is the reduction of a retail price to enhance movement of an item) and shortages as separate elements in the determination of gross margin. Though the derivation of cost of sales for the various cost departments is similar in principle to retail departments, the elements of cost are usually very different.

For the above reasons, and because it would not be appropriate to allocate expenses such as buying and merchandise management, separate operating statements should be prepared for cost or non-retail operations which are independent of any other department. [Ref. 3: p. VI-1] However, the NRMA has stated that, sales of cost selling departments should be included in total store sales. The NRMA suggests the use of Exhibit 2-3 for any of the cost departments or workrooms normally operated in conjunction with retail stores. A detailed explanation of the items in the operating statement can be seen in Appendix C.

WORKROOM AND COST DEPARTMENT OPERATING STATEMENT*

OPERATING REPORT

1. Revenue from Sales to Customers

LABOR AND MATERIALS

2. Inventory of Materials and Supplies—Beginning of Period
3. Purchases of Materials and Supplies
4. Material and Labor Services Purchases
5. Total
6. Inventory of Materials and Supplies—End of Period
7. Materials and Supplies Used
8. Direct Labor
9. Indirect Labor
10. Total Labor
11. Work in Process Adjustment
12. Total Materials and Labor

OTHER MANUFACTURING CHARGES

13. Space Charge
14. Supplies
15. Utilities
16. Use of Cars and Trucks
17. Cartare and Travel
18. Services Purchased
19. Repairs to Equipment
20. Payroll Taxes and Supplementary Benefits
21. Insurance
22. Depreciation
23. Total Other Manufacturing Charges
24. TOTAL COST OF PRODUCTION
25. Less Credits from Transfers
26. Net Cost of Production
27. PROFIT OR LOSS (Indirect Manufacturing Departments and Merchandise Service Workrooms)

OPERATING EXPENSES (for Cost Selling Departments only)

28. Operating Expenses (for Cost Selling Departments only)
28a. 28b. 28c. etc } Each Store to insert appropriate Expense Center No. s and Titles
29. Total Operating Expenses
30. Operating Profit or Loss (Cost Selling Departments)

DISTRIBUTION OF WORKROOM COST TO THE RETAIL SELLING DEPARTMENT(S)

Retail Department No.	Work Units	Distribution of Production Cost $	Sales to Customers $	Net Department Charges $
ONE WORK UNIT = X MINUTES OF DIRECT LABOR				
TOTAL		Same as Item 26	Same as Item 1	Same as Item 27

STATISTICS:

No. of Hours Worked
Average No. of Employees
Average Floor Space in Sq. Ft.
Average Cost per Unit

*This statement can be used for any of the Cost Departments or Workrooms normally operated in a retail store. However, the operation of a Restaurant involves so many problems which are different from the Ordinary Retail or Cost Department that a special form of operating statement is provided.

EXHIBIT 2-3 WORKROOM AND COST DEPARTMENT OPERATING STATEMENT

3. Summaries of Expense Data

To achieve the objective of improved profitability as stated in the expense accounting section of this chapter, management must be provided with reports concerning expenses in the monthly financial statements. These reports can then be used for comparison against the company's budget and to expense percentages provided by the NRMA for retailers similar in size, merchandise composition or geographic section of the country. The Retail Accounting Manual provides six different expense reports which are described below.

The first expense report shown in the RAM displays expenses by expense summary as compared to the current budget and to last year's performance, and shows variances from the budget. Amounts are shown both for the current month and season-to-date. The report as presented in Exhibit 2-4A shows only the 10 expense summaries. However, companies that use expense and subexpense centers may wish to display them as in Exhibit 2-4B.

The second expense report shown is a statement of operating expenses by natural division. This report is similar in format to the first report and is presented in Exhibit 2-5.

The third expense report is displayed in Exhibit 2-6 and is a report for individual expense centers. The format for this report provides for variances from budgeted

COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE SUMMARY
(SUGGESTED FOR USE BY SMALLER FIRMS)

Period ____________

CLASSIFICATION OF EXPENSE	MONTH								SEASON-TO-DATE							
	THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR		THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR	
NAME	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%
010 Property and Equipment																
100 Company Management																
200 Accounting and Management Info.																
300 Credit and Accounts Receivable																
400 Sales Promotion																
500 Service and Operations																
600 Personnel																
700 Merchandise Receiving, Storage and Distribution																
800 Selling and Supporting Services																
900 Merchandising																
TOTAL EXPENSE																

EXHIBIT 2-4A COMPARATIVE STATEMENT OF OPERATING EXPENSES BY EXPENSE SUMMARY

COMPARATIVE STATEMENT OF OPERATING EXPENSES BY EXPENSE CENTER AND SUBCENTER

Continued

Period ____________

CLASSIFICATION OF EXPENSE	MONTH								SEASON-TO-DATE							
NAME	THIS YEAR		BUDGET		BUDGET VAR		LAST YEAR		THIS YEAR		BUDGET		BUDGET VAR		LAST YEAR	
	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT	%
010 Property and Equipment																
020 Real Estate, Bldgs. & Bldg. Equip..																
030 Furniture, Fixtures & Non-Bldg. Equip.																
100 Company Management																
110 Executive Office																
130 Branch Management																
140 Internal Audit																
150 Legal & Consumer Activities																
200 Accounting & Management Information																
210 Control Mgmt., Gen'l Acctg. & Statistical																
220 Sales Audit																
230 Accounts Payable																
240 Payroll & Timekeeping Dept.																
280 Data Processing																
300 Credit & Accounts Receivable																
310 Credit Management																
330 Collection																
340 Accounts Receivable & Bill Adjustment																
350 Cash Office																
360 Branch Store Offices																
400 Sales Promotion																
410 Sales Promotion Management																
420 Advertising																
421 Newspaper																
425 Radio																
426 TV																
427 Direct Mail																
428 Other Advertising																
Continued																

EXHIBIT 2-4B COMPARATIVE STATEMENT OF OPERATING EXPENSES BY EXPENSE CENTER AND SUBCENTER

Continued

COMPARATIVE STATEMENT OF OPERATING EXPENSES BY EXPENSE CENTER AND SUBCENTER

Period ______________

CLASSIFICATION OF EXPENSE	MONTH								SEASON-TO-DATE							
	THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR		THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR	
NAME	AMT	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%
430 Shows, Special Events and Exhibits																
431 Public Relations																
432 Merchandise Shows																
434 Special Events and Exhibits																
440 Display																
441 Display Production																
444 Sign Shop																
500 Service and Operations																
510 Service and Operations Management																
530 Security																
550 Telephones and Communications																
560 Utilities																
570 Housekeeping																
580 Maintenance and Repairs																
600 Personnel																
610 Personnel Management																
620 Employment																
640 Training																
660 Medical and Other Employee Services																
670 Supplementary Benefits																
700 Merchandise Receiving, Storage and Distrib.																
710 Mgmt. of Mdse. Recvg., Storage & Distrib.																
720 Receiving and Marking																
721 Receiving																
723 Checking																
725 Marking																
750 Shuttle Services																
727 Returns to Vendors																
730 Reserve Stock Storage																
Continued																

EXHIBIT 2-4B COMPARATIVE STATEMENT OF OPERATING EXPENSES BY EXPENSE CENTER AND SUBCENTER

Continued

COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE CENTER AND SUBCENTER

Period ____________________

CLASSIFICATION OF EXPENSE	MONTH								SEASON-TO-DATE							
NAME	THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR		THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR	
	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%
800 Selling and Supporting Services																
810 Selling Supervision																
820 Direct Selling																
821 Retail Selling Depts.-Salespeople																
823 Interior Decorators																
824 Cost Selling Depts.-Salespeople																
826 Floor Cashiers and Wrappers																
828 Forward Stock Maintenance																
830 Customer Services																
840 Selling Support Services																
860 Central Wrapping and Packing																
880 Delivery																
881 Package																
883 Furniture and Bulk																
886 Freight, Express and Parcel Post																
900 Merchandising																
910 Merchandising Management																
920 Buying																
930 Merchandise Control																
TOTAL EXPENSE																

EXHIBIT 2-4B COMPARATIVE STATEMENT OF OPERATING EXPENSES BY EXPENSE CENTER AND SUBCENTER

COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY NATURAL DIVISION

Period ____________

NATURAL DIVISIONS	MONTH								SEASON-TO-DATE							
	THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR		THIS YEAR		BUDGET		BUDGET VAR.		LAST YEAR	
NAME	AMT.	%	AMT.	%	AMT	%	AMT.	%	AMT.	%	AMT	%	AMT.	%	AMT.	%
01 Payroll																
03 Media Costs																
04 Taxes																
06 Supplies																
07 Services Purchased																
08 Unclassified																
09 Travel																
10 Communications																
11 Pensions																
12 Insurance																
13 Depreciation																
14 Professional Services																
16 Bad Debts																
17 Equipment Rentals																
18 Outside Maintenance & Equip. Service Contracts																
20 Real Property Rentals																
92 Credits and Outside Revenues																
02 Allocated Fringe Benefits																
90 Expense Transfers - In																
91 Expense Transfers - Out																

EXHIBIT 2-5 COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY NATURAL DIVISION

EXPENSE CENTER REPORT

Central Org. X / Store / (Check One)	Supervisor	EXPENSE CENTER	ACTIVITY UNIT	UNITS THIS PERIOD	PERIOD
	H. Jones	240 Payroll & Timekeeping Department	Payments Made	1,000	III

NATURAL DIVISION		CURRENT PERIOD				YEAR-TO-DATE			
				VARIANCE				VARIANCE	
NO.	TITLE	ACTUAL	BUDGET	AMOUNT	%	ACTUAL	BUDGET	AMOUNT	%
01	Payroll	$2,660	$2,350	$(310)		$7,620	$6,555	$(1,065)	
02	Allocated Fringe Benefits	266	236	(30)		762	656	(106)	
06	Supplies	84	100	16		311	280	(31)	
07	Services Purchased	188	150	(38)		482	415	(67)	
08	Unclassified	92	50	(42)		171	135	(36)	
90	Expense Transfers In	275	250	(25)		825	750	(75)	
	TOTALS	$3,565	$3,136	$(429)	(13.68)	$10,171	$8,791	$(1,380)	(15.70)

Exhibit 2-6 EXPENSE CENTER REPORT

expenses and may be made for a single selling location or aggregated for the firm as a whole.

The fourth expense report deals with expense center productivity and is shown in Exhibit 2-7. This report deals not only with expenses by natural division for an expense center, but also with production measurement in the form of productive hours consumed, average hourly production pay rates, relative work loads, total dollars expended, and other factors entering into the analysis of an expense center. However, it must be understood that not all expense centers can use productivity measurement techniques. For example it would be difficult to establish a productivity measurement for the Property and Equipment, the Company Management , and the Sales Promotion expense centers, since it would be difficult to define a transaction in relation to these expense centers. However, it is easy to define transactions in the Accounting and Management Information (bills paid), Credit and Accounts Receivable (accounts collected), and Personnel Expense Centers (personnel hired or trained).

The fifth expense report is used to establish a flexible budget for an expense center and is illustrated in Exhibit 2-8. As stated in the RAM, "The unit used to measure the level of activity should be one which reflects the work load of the expense center and which may be measured relatively easily." The RAM goes on to stress the

EXPENSE CENTER PRODUCTIVITY REPORT

E.C. TITLE ______________________ PERIOD ____________

SUPERVISOR ______________________ UNIT OF MEASURE ____________

EXPENSE CENTER No. ____________

PERIOD		NET SALES (In Hundreds)	WORK LOAD		PRODUCTIVE HOURS		UNITS PRODUCED PER HOUR (4÷6)	HOURLY PAY RATE (10÷6)	EXPENSE IN DOLLARS— BY NATURAL DIVISIONS							COST STATISTICS		
			TOTAL UNIT TRANSACTIONS	PER $100.00 of SALES (4÷3)	TOTAL CONSUMED	PER $100.00 of SALES (6÷3)			01 — PAYROLL	06 — SUPPLIES	08 — UNCL	—	—	—	TOTAL	PER $100.00 OF SALES		PER UNIT TRANS. (16÷4)
																PAYROLL (7×9)	TOTAL (16÷3)	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
MONTH OF	LAST YEAR																	
	PLAN																	
	ADJ. PLAN																	
	ACTUAL																	
	VARIANCE																	
MONTH OF	LAST YEAR																	
	PLAN																	
	ADJ. PLAN																	
	ACTUAL																	
	VARIANCE																	
MONTH OF																		
TOTALS FOR	LAST YEAR																	
	PLAN																	
	ADJ. PLAN																	
	ACTUAL																	
MONTHS	VARIANCE																	

EXHIBIT 2-7 EXPENSE CENTER PRODUCTIVITY REPORT

Continued

EXPENSE CENTER REPORT
FLEXIBLE BUDGET

CENTRAL ORG.	X	SUPERVISOR	EXPENSE CENTER			ACTIVITY UNIT			
STORE		H. JONES	240 - Payroll and Timekeeping Department			PAYMENTS MADE			
(CHECK ONE)									
		LEVEL OF ACTIVITY							
NATURAL DIVISION		800	900	1,000	1,100	1,200	1,300	1,400	1,500
		EXPENSE BUDGET FOR PERIOD							
01 Payroll		4,200	4,200	4,700	4,700	5,800	5,800	6,300	6,300
03 Media Costs									
04 Taxes									
06 Supplies		80	90	100	110	120	130	140	150
07 Services Purchased		120	135	150	165	180	195	210	225
08 Unclassified -		40	45	50	55	60	65	70	75
09 Travel									
10 Communications									
11 Pensions									
12 Insurance									
13 Depreciation									
14 Professional Services									
16 Bad Debts									
17 Equipment Rentals									

EXHIBIT 2-8 EXPENSE CENTER REPORT FLEXIBLE BUDGET

(Cont'd)

EXPENSE CENTER REPORT
FLEXIBLE BUDGET

CENTRAL ORG. X STORE (CHECK ONE)	SUPERVISOR H. JONES	EXPENSE CENTER 240 - Payroll and Timekeeping Department	ACTIVITY UNIT PAYMENTS MADE

NATURAL DIVISION	800	900	1,000	1,100	1,200	1,300	1,400	1,500
	LEVEL OF ACTIVITY / EXPENSE BUDGET FOR PERIOD							
18 Outside Maintenance and Equip. Service Contracts								
20 Real Property Rentals								
92 Credits and Outside Revenues								
02 Allocated Fringe Benefits	630	630	705	705	870	870	945	945
90 Expense Transfers - In	200	225	250	275	300	325	350	375
91 Expense Transfers - Out								
TOTALS	5,270	5,325	5,955	6,010	7,330	7,385	8,015	8,070

PAYROLL DETAIL

JOB FUNCTION	SALARY FOR PERIOD	NO.	AM'T	NO.	AM'T	NO.	AM'T	NO.	AM'T	NO.	AM'T	NO.	AM'T	NO.	AM'T	NO.	AM'T
Supervisor	$1,000	1	1,000	1	1,000	1	1,000	1	1,000	1	1,000	1	1,000	1	1,000	1	1,000
Mch. Operator	600	2	1,200	2	1,200	2	1,200	2	1,200	3	1,800	3	1,800	3	1,800	3	1,800
Gen'l Clerk	500	4	2,000	4	2,000	5	2,500	5	2,500	6	3,000	6	3,000	7	3,500	7	3,500
TOTALS			4,200		4,200		4,700		4,700		5,800		5,800		6,300		6,300

SUMMARY

BUDGETED VARIABLE EXPENSE RATE $ 6.25 PER ACTIVITY UNIT	Supervisor's Signature ________ 2-2-76 Date

EXHIBIT 2-8 EXPENSE CENTER REPORT FLEXIBLE BUDGET

importance of agreement on the budgeted level of productivity at each activity level between the individual setting the budgeted amounts and the supervisor who must work within those budgets.

The final expense report provided by the RAM, a payroll and production summary, is depicted in Exhibit 2-9. Payroll is normally the largest natural division expense in every expense center and, therefore, deserves the extra control. This report delves further into the area of payroll than the expense center productivity report by dividing the payroll into smaller periods of time, by delineating planned requirements for executive, regular, and overtime payroll and by giving statistics in the area of average wage rates.

Besides the reports discussed above the RAM contends that it is feasible to develop a supplemental system of exception reports which will direct top management's attention directly to problem areas. As an example, a report could be produced that lists those expense accounts that have budget variances exceeding a certain percentage. [Ref. 3: pp. VIII 1-13] This could be problematic if the reports are used as a means for evaluating a managers performance [Ref. 4: pp. 109-113]. If a manager's evaluation is based strictly on his department's performance in regard to the short term budget, he will tend to make sure his figures look good in relation to the short term budget regardless of

PAYROLL AND PRODUCTION SUMMARY

DETAILED PAYROLL PROJECTION FOR ______					TITLE ______											EXPENSE CENTER No. ______					
MONTH or PERIOD	No. of WEEKS	WORK LOAD No. of Production Measuring Units			PRODUCTION Per Man Hour			No. of PEOPLE 40 HOURS EQUAL 1 PERSON								PAYROLL COSTS in Dollars				TRANS. COSTS	
		ACTUAL		ESTI-MATED	ACTUAL		PLAN	ACTUAL		EST. REQUIREMENT THIS YEAR						ACTUAL		ESTIMATED			
		Prior Year	Last Year	This Year	Prior	Last Year	This Year	Prior	Last Year	Total	Exec.	Reg.	Extra	O.T.		Prior	Last Year	This Year	Rev.	Last Year	This Year
TOTAL																					

DETAILS OF PERSONNEL			(For Executives List Name Only)					GENERAL NOTES & STATISTICS			
NAME	WEEKLY WAGE	JOB TITLE	√	√	NAME	WEEKLY WAGE	JOB TITLE	AVERAGE SALARY	This Year $ ____	Last Year $ ____	Prior $ ____
								This Year			
								Last Year			
								Prior Year			
								Other			

EXHIBIT 2-9 PAYROLL AND PRODUCTION SUMMARY

the affect on long term profitability of the company. The manager could do this either by manipulation of the records or by making less cost effective decisions, such as putting off needed repairs until money is available in the budget. [Ref. 4: pp. 109-113]

4. Branch Store Reporting

With the advent of multi-store operations many new problems in retail accounting have become apparent when attempting to evaluate the profitability of each store. The proper charging of expenses is of major concern. In this area it has become common to charge expenses directly incurred by a location to that location while all other expenses are recorded initially as a central organization expense. The central organization expenses are then assigned or allocated to profit centers.

A sample branch store report can be seen in Exhibit 2-10. This report may be changed or altered slightly depending on management's information needs. However, it should show the store's operating results for each month and year-to-date. Besides those columns shown, many companies add a column to show variances from the budget and last year. Though comparisons to budget are usually considered realistic and essential to the measurement of current performance the same cannot be said for comparisons to last year. Allen H. Seed III, in his article "Improving the Effectiveness of

INDIVIDUAL STORE LOCATION OPERATING STATEMENT

MONTH OF ______________ STORE ______________

	MONTH						TO DATE					
	This Year		Budget		Last Year		This Year		Budget		Last Year	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Net Sales												
Owned Retail												
Cust												
Leased												
Total												
Gross Margin												
Retail												
Cost												
Leased												
Expenses*												
010 Property & Equipment												
100 Company Management												
300 Credit and A/C Receivable												
400 Sales Promotion												
500 Service and Operations												
600 Personnel												
700 Merch. Receiving, Storage and Distribution												
800 Selling and Supporting Services												
Total												
Location Contribution												
Allocation of Central Organization Expenses**												
Operating Income												

*Includes both direct and assignable expenses. Note - omits expense summaries 200 and 900, since these expense summaries do not typically include any direct or assignable expenses. (See Exhibit #2.)

**Used only in those cases where such allocation is made.

EXHIBIT 2-10 INDIVIDUAL STORE LOCATION OPERATING STATEMENT

Management Reports" [Ref. 5: p. 63], and Louis C. Moscarello, in his book Retail Accounting and Financial Control [Ref. 6: p. 323], object to comparisons made to last year. Each state that a comparison to previous years is looking backward at times that may have been either exceptionally good or bad and is not consistent with the philosophy of management by objectives.

5. Executive Level Reporting

In the previous sections the discussion has been concerned mainly with reports received by operating managers. This section discusses senior executive level reporting. As background to this discussion, the need for planning on a seasonal, annual, and long-term basis is emphasized.

a. Planning and Budgeting

Long-term goals, looking ahead three to five years or more, should reflect where the firm is, where it wants to go (its objectives), and what resources, including funds, are needed to achieve the objectives. Seasonal and annual plans must, in-turn, reflect the intent of the firm's long-range objectives.

A prime objective for each firm is the profit objective. Depending on the organization, this objective may be simply to cover their cost of operation, such as for nonprofit organizations similar to Goodwill Industries, or to make a profit which can be shared by the stockholders of

the company. To obtain this objective company-wide profit plans must be established reflecting management's expectations for sales, gross margin, operating expenses, and other income. From this company-wide profit plan detailed operating budgets must be prepared for each responsible location whether it be a profit or expense center. Once the detailed plans are established and agreement reached between senior management and the levels of operating management (i.e., buyers, merchandise managers, and store managers), each member of the management team then has a financial plan which he or she is expected to follow. With the concept of management by objectives and the above planning functions installed as an integral part of a firm's method of operation, reports can be developed to provide top management with the feedback necessary to perform their management responsibilities. [Ref. 3: pp. X1-2]

b. Suggested Reporting Formats

The NRMA has suggested three reports for senior executive level management though they stress that these reports represent only one of several alternatives and that the specific reports used will depend on management's specific needs and desires. The reports consist of a total company balance sheet, a condensed income statement, and a total company income and expense statement. The following assumptions apply to each of the suggested reports:

1. The firm has several selling locations.

2. The firm accounts for inventory investment by departments so that gross merchandise margin can be determined by department and by location.

3. The firm develops a written profit plan for each fiscal period.

4. The firm is organized so that individual store managers have responsibility for the direct and assignable operating expenses of the store.

5. The firm uses the expense center summaries, expense centers, and sub-expense centers as outlined in this manual, providing sufficient expense center breakdowns to reflect executive responsibilities.

6. The firm uses flexible expense budgets.

(1) Total Company Balance Sheet. This report, as shown in Exhibit 2-11, presents a summary of data with only significant pieces of information or key figures that the NRMA has considered to be necessary to management needs. The information is compared with a plan and is shown in trend format so that management can more easily spot problems. Finally all dollar amounts are rounded to the nearest thousand dollars for easier reading with no degradation of report quality.

(2) Condensed Income Statement. The report shown in Exhibit 2-12 presents a conventional company-wide operating report prepared for management. It is an accumulation of individual-selling- location income statements for the current month and for the year-to-date.

TOTAL COMPANY BALANCE SHEET

PERIOD ENDED ________

(In Thousands)

	CURRENT ASSETS								FIXED ASSETS		OTHER ASSETS		
	CASH		ACCTS. REC.		INVENTORIES		OTHER CURRENT ASSETS						
	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	
JAN		1,175		10,789		4,767		54		8,667		378	JAN
FEB	1,250	1,259	10,075	10,171	5,300	5,256	50	54	8,690	8,638	410	402	FEB
MAR	1,200	1,212	10,495	10,443	5,200	5,478	55	56	8,610	8,596	415	410	MAR
APR	1,300	1,340	11,090	11,282	5,525	5,437	60	71	8,560	8,610	415	418	APR
MAY	1,160		10,880		5,030		53		8,650		405		MAY
JUN	1,100		10,935		5,450		55		8,590		400		JUN
JUL	1,100		10,765		5,625		55		8,690		395		JUL
AUG													AUG
SEP													SEP
OCT													OCT
NOV													NOV
DEC													DEC
JAN													JAN

NOTE: Until such time as a company develops a formal profit plan, last year's figures may be shown in the plan column. However, to be most effective as a management standard, the plan should reflect expected future results.

EXHIBIT 2-11 TOTAL COMPANY BALANCE SHEET

(Cont'd)

TOTAL COMPANY BALANCE SHEET

	CURRENT LIABILITIES								DEFERRED INCOME TAXES AND LONG TERM DEBT		STOCKHOLDERS' INVESTMENT		CURRENT RATIO		
	ACCOUNTS PAYABLE		ACCRUED EXPENSES		INCOME TAXES		OTHER PAYABLES								
	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	
JAN		3,615		116		537		1,311		3,785		16,466		3.01	JAN
FEB	3,400	3,438	120	119	620	562	1,250	1,260	3,785	3,785	16,600	16,615	3.09	3.11	FEB
MAR	3,175	3,457	135	150	790	735	1,133	1,175	1,133	3,785	16,915	16,935	3.21	3.14	MAR
APR	3,600	3,590	225	315	860	880	1,325	1,386	3,785	3,785	17,175	16,202	2.99	2.95	APR
MAY	3,200		450		635		910		3,785		17,200		3.30		MAY
JUN	3,125		545		730		975		3,785		17,370		3.26		JUN
JUL	3,005		420		825		1,050		3,785		17,545		3.31		JUL
AUG															AUG
SEP															SEP
OCT															OCT
NOV															NOV
DEC															DEC
JAN															JAN

NOTE. Until such time as a company develops a formal profit plan, last year's figures may be shown in the plan column. However, to be most effective as a management standard, the plan should reflect expected future results.

EXHIBIT 2-11 TOTAL COMPANY BALANCE SHEET

CONDENSED INCOME STATEMENT

Period ________________

	PERIOD				YEAR-TO-DATE			
	THIS YEAR	BUDGET	VARIANCE	LAST YEAR	THIS YEAR	BUDGET	VARIANCE	LAST YEAR
Total Sales								
Owned Retail Sales								
Less, Returns & Allowances								
Net Owned Retail Sales								
Cost of Merchandise Handled								
Gross Margin - Owned Depts.								
Commissions from Leased Depts.								
Workroom and Other Cost of Sales								
Gross Margin								
Operating Expenses								
Operating Income (Loss)								
Other Income, Net								
Finance Charge Income								
Sundry Revenue								
Interest Income								
Interest Expense								
Income (Loss) Before Taxes								
Provisions for Taxes Based on Income								
Federal								
State and Local								
NET INCOME								

EXHIBIT 2-12 CONDENSED INCOME STATEMENT

(3) Total Company Income and Expense Statement. Exhibit 2-13 illustrates several concepts of sound management reporting. First, only significant elements of information are presented to management for a quick, overall picture of the operating results. Second, all amounts are presented in trend format, as well as showing season-to-date and year-to-date. Third, all amounts are compared to the profit plan with variations to plan being highlighted. Fourth, Return on Sales, Assets, and Equity are highlighted. Finally, the five reasons for planned profits differing from actual profits are highlighted. The reasons for differences are:

1. Volume Variance ((Actual Net Sales - Planned Net Sales) X Planned Gross Margin Rate)

2. Rate Variance ((Actual G.M. - Planned G.M. Rate) X Actual Net Sales)

3. Operating Expense Budget Adjustment (Total operating expense per profit plan minus total budgeted operating expense based on activity levels.)

4. Operating Expense Spending Variance (Total budgeted operating expense based on actual activity levels minus total actual operating expense.)

5. Net Other Income Variance (Variation between actual net other income and planned net other income.) [Ref. 3: pp. X6-7]

E. EFFECTIVE FINANCIAL MANAGEMENT REPORTS

As discussed in the introduction of this thesis the following section will describe techniques for improving the effectiveness of management accounting reports and

TOTAL COMPANY INCOME AND EXPENSE STATEMENT

(IN THOUSANDS)

	TOTAL NET SALES		TOTAL GROSS MERCHANDISE MARGIN				OPERATING EXPENSES		OPERATING INCOME		NET OTHER INCOME		PROFIT BEFORE TAXES		NET PROFIT		MEASURES OF RETURN		
			AMOUNT		PER CENT														
	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	RETURN ON SALES	RETURN ON ASSETS	RETURN ON EQUITY
FEB	(10)	4,404	(4)	1,580	64	35.17	32	1,322	16	271	14	42	32	313	16	188	3.41%	.30%	.61%
MAR	(18)	5,774	6	2,114	33	36.61	(10)	1,516	(2)	598	10	66	8	664	4	318	5.52	1.28	1.62
APR	6	5,861	21	2,061	32	35.70	(18)	1,561	6	506	6	67	14	557	7	287	4.72	1.04	1.30
MAY		5,530*		2,060*		36.62*		1,518*		540*		46*		586*		285*			
JUN		5,210*		1,910*		36.73*		1,510*		308*		58*		366*		170*			
JUL		4,910*		1,840*		36.88*		1,465*		345*		86*		356*		175*			
AUG																			
SEP																			
OCT																			
NOV																			
DEC																			
JAN																			
SEASON TO DATE																			
SPRING	(22)	15,039	26	5,700	21	35.54	(4)	4,421	21	1,367	33	167	34	1,534	27	730	4.88%	2.88%	3.80%
FALL																			
YEAR TO DATE																			

OWNED DEPARTMENTS

	NET SALES		GROSS MERCHANDISE MARGIN			
			AMOUNT		% TO SALES	
	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*
FEB	24	4,308	3	1,580	13	35.66
MAR	17	5,632	6	2,056	26	37.22
APR	14	5,517	20	2,094	28	37.41
MAY		5,408*		2,042*		37.14*
JUN		5,208		1,902*		37.37*
JUL		4,780*		1,786*		37.46*
AUG						
SEP						
OCT						
NOV						
DEC						
JAN						
SEASON TO DATE						
SPRING	27	15,436	26	5,740	26	37.19
FALL						
YEAR TO DATE						

LEASED DEPARTMENTS

	NET SALES		COMMISSIONS-LEASED DEPTS			
			AMOUNT		% TO SALES	
	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*	BETTER (WORSE)	ACTUAL PLAN*
FEB	0	116	(1)	13	(1.71)	11.02
MAR	2	142		18	(10)	12.60
APR	(8)	144	(3)	17	(.86)	11.81
MAY		146*		17*		13.14*
JUN		136*		16*		12.31*
JUL		128*		14*		11.67*
AUG						
SEP						
OCT						
NOV						
DEC						
JAN						
SEASON TO DATE						
SPRING	4	404	(3)	48	(.67)	11.88
FALL						
YEAR TO DATE						

CREDIT SERVICE CHARGES

	BETTER (WORSE)	ACTUAL PLAN*
FEB	1	62
MAR	2	60
APR	4	67
MAY		68*
JUN		65*
JUL		68*
AUG		
SEP		
OCT		
NOV		
DEC		
JAN		
SEASON TO DATE		
SPRING	7	240
FALL		
YEAR TO DATE		

ANALYSIS OF PROFIT BEFORE TAXES

	PLAN	VARIANCES					ACTUAL
		TOTAL GROSS MDSE MARGIN		OPERATING EXPENSES		NET OTHER INCOME	
		VOLUME	RATE	BUDGET ADJ	SPENDING VARIANCE		
FEB	281	(8)	2	6	16	14	313
MAR	656	(3)	13	3	(15)	10	664
APR	543	3	10	(1)	(18)	6	557
MAY							
JUN							
JUL							
AUG							
SEP							
OCT							
NOV							
DEC							
JAN							
SEASON TO DATE							
SPRING	1,480	(8)	33	10	(14)	33	1,534
FALL							
YEAR TO DATE							

1 of credit service charges

2 such time as a company develops a formal plan, last year's figures may be shown in the plan column. However, to [illegible] fective as a management standard, the plan should reflect future results

EXHIBIT 2-13 TOTAL COMPANY INCOME AND EXPENSE STATEMENT

weaknesses which should be avoided in management accounting reports:

1. Improving the Effectiveness of Management Reports

Allen H. Seed III, in his article "Improving the Effectiveness of Management Reports", presented the following categories and techniques to improve the effectiveness of management reports:

a. Report Content

* Attention should be focused on key controllable items on which the concerned executive can affect change.

* Actual results should be compared with plan, budget or standard to evaluate information in relation to objectives.

* Significant ratios and unit costs should be included on reports so that quantitative results may be related to activity levels.

* Trends should be emphasized for planning purposes in order that unfavorable trends may be controlled and so that benefit may be gained from favorable trends.

* Non-accounting information should be shown on accounting reports so that the reports will contain the whole picture.

b. Timing of Reports

* The frequency of reports should be related to the frequency of action that can be taken based on those reports.

* The reports should be distributed immediately after the close of the period reported in order that action may be taken to correct problems encountered.

c. Recipient of Report

* "Limit the distribution of reports to persons who actually act on the information contained in the reports, not only to reduce cost of preparation, but, most importantly, to use more effectively the time of the recipients." [Ref. 5: p. 67]

* Higher levels of management should receive only summarized or interpreted results so that attention will be focused on results obtained.

d. Presentation

* Reports must be kept simple in order that key information is not buried by excess information.

* Uniform formats should be established for all reports so that it is easy for an executive to follow from one report to another.

* Columns of numerical data should be broken up by placing captions in the middle of the report.

* "Identify each report with the name of the individual responsible and accountable for the results

shown, thereby personalizing the report and causing it to receive more attention." [Ref. 5: p. 67]

* Report significant figures only. [Ref. 5: pp. 66-67]

2. Common Weaknesses of Management Reports

In his article, "Dynamic Accounting for Effective Management" [Ref. 7: pp. 11-12], Hugh G. Luke presents five common weaknesses that should be avoided when preparing management accounting reports.

The first and most common weakness is the presentation of too much information -- not only too many conflicting, overlapping or unnecessary reports, but also a large amount of useless information in valuable reports, such as too many columns or too fine a breakdown. The personnel responsible for preparing the report are not always to blame, since all too often it is the executive receiving the report that requests such detail. The executive then has a tendency to either become enslaved by the mass of information or he ignores it altogether.

The second weakness is the omission of important information, which is caused primarily by the short sighted belief that only information provided by the accounting system belongs on a management report. There are areas of performance, such as in distribution and personnel, where results may be better measured using a medium other than dollars.

The third weakness is a lack of integration in the reporting system. As businesses expand more, and more information is requested by various departments and is subsequently provided without a reasoned determination that the information is really needed by the department or company as a whole. Another way of introducing a lack of integration is through the institution of reports aimed at correcting a temporary problem and then continuing the reports once the problem is solved.

The fourth weakness in reports is a lack of clarity. This weakness may be reflected in content or form or both. The report must satisfy the real interests and needs of management while maintaining the use of proper accounting principles and methods.

The fifth weakness is failure to distinguish between the kinds of information for planning and the kinds needed for control. For example, the sales information needed for planning departmental purchases does not have to be broken down by each location, however, for inventory control purposes, sales by location is normally considered necessary.

III. INFORMATION PROVIDED IN GENERAL PRACTICE

A. INTRODUCTION

This chapter is intended to examine retail financial statements used by major companies in the private sector and the Army and Air Force Exchange Service (AAFES) in the public sector. This chapter is divided into five sections: retail merchandise reports, non-retail merchandise reports, expense reports, branch store reports, and executive level reports. Exhibit 3-1. provides a synopsis of what type reports were provide by each of the major companies and AAFES.

B. RETAIL MERCHANDISE REPORTS

The May Department Stores Company, J. C. Penny Company, and the Army and Air Force Exchange Service provided the retail merchandise reports shown in Exhibits 3-2, 3-3, and 3-4. Though each report is different, there are some similarities among the reports. Each report provides an initial markon percentage, a month-to-date dollar sales amount, a markdown dollar amount, and a month-to-date dollar gross profit amount for each department. Two of the three reports provide a sales percentage to total sales, a gross profit percentage to sales, a dollar inventory shortage provision, a weeks of stock figure, an inventory turnover figure, and a

Companies / Type Report	JCPenny	Woolworth	May	Carter Hawley Hale	AAFES	Name Withheld
Retail Merchandise	X		X		X	
Non-retail Merchandise					X	
Expense	X		X		X	X
Branch	X	X			X	
Executive	X	X	X	X	X	

EXHIBIT 3-1 REPORTS RECEIVED FROM RETAILERS

THE MAY DEPARTMENT STORES COMPANY

REVIEW OF KEY MERCHANDISE STATISTICS

837

		TOTAL SALES		RECEIPTS STD		EOM STOCK				WKS SUPPLY			TURNOVER			GROSS MARGIN				SHO			MARKDOWNS					
																										RATE		
		$	$ [illegible]	$	% CHG	TY	PL	LY	% CHG	TY	PL	LY	TY	[illegible]	LY	TY	[illegible]	PL	LY	TY	[illegible]	LY	$ TY	B/(W) LY	% CHG	TY	[illegible]	LY
[illegible]	[illegible]	[illegible]																										
[illegible]	[illegible]																											
[illegible]	[illegible]																											
	[illegible]																											
[illegible]	[illegible]																											
	[illegible]																											
[illegible]	[illegible]																											
[illegible]	[illegible]																											
[illegible]	[illegible]																											
	[illegible]																											
[illegible]	[illegible]																											

[illegible]

EXHIBIT 3-2 REVIEW OF KEY MERCHANDISE STATISTICS

PROG ID FE033P
STORE CITY STATE DISTRICT

DEPA[illegible]NT RECORD REPORT
APRIL, 1983

NO. 2

DEPTS	MERCHANDISE SALES				MERCHANDISE STATISTICS				GROSS PROFIT								RET INVENTORY		
	PRIOR YR ACTUAL	CURR YR PLAN	CURR YR ACTUAL	PCT C/U PR YR	PRICE BRKS	OTHER RDCNS	SHR	MARK UP	THIS YEAR DOLLARS	PCT	LAST YEAR DOLLARS	PCT	PCT INC/ DEC	PER SQ FOOT TY	LY	$ ON HAND	O/U STOCK	SLS PER FT

EXHIBIT 3-3 DEPARTMENT RECORD REPORT

[redacted] 012 [redacted]

STATEMENT OF RETAIL DEPARTMENT OPERATIONS ARMY AND AIR FORCE EXCHANGE SERVICE PAGE: 25
PCN: GA8WP079-01 PERIOD ENDING: 24 SEP 82
LACKLAND AFB FACILITY NO: 3722 12 09 AX: 8012 ER: 0001 ES: 0010

DEPT	INIT MKON	NET SALES	% TOT	SALES DISCOUNTS	% SLS	MARKDOWNS	% SLS	SHORTAGES	% SLS	TOTAL DECREASES	GP PRIOR EARNED DISC	% SLS	WEEK STK CURR INV	YTD TURNS AVG YTD INV	GMROI %
01	23.98	1117-	.8			2-	.2	11-	1.0	1130-	258-	23.1	3.65	106.52	
	24.38	8845-	.8			26-	.3	89-	1.0	8960-	2069-	23.4	948-	83	2494-
10	22.17	19165-	13.2					192-	1.0	19357-	4099-	21.3	3.82	10.50	
	23.52	151792-	13.2			178-	.1	1517-	1.0	153437-	34391-	22.6	17034	14451	238-
20	16.43	85021-	59.3			1032-	1.2	857-	1.0	87710-	12521-	14.5	16.99	4.31	
	17.34	679513-	59.3			4069-	.6	6805-	1.0	690387-	108808-	16.0	335180-	157734-	69
23	17.56	9536-	6.6					95-	1.0	9631-	1596-	16.7	103.35	.36	
	19.53	75503-	6.6			1379-	1.8	755-	1.0	77637-	13027-	17.2	406604	210644	6-
30	14.15	6624-	4.6			37-	.6	66-	1.0	6727-	849-	12.8	18.77	2.46	
	16.07	52449-	4.6			257-	.5	524-	1.0	53230-	7775-	14.8	28918	21296	36-
34	27.62	1656-	1.1					17-	1.0	1673-	445-	26.9	22.30	3.12	
	19.61	13112-	1.1			1-		132-	1.0	13245-	2464-	18.8	8590-	4200-	59
40															
						4-				4-	3		4-	1-	
60	22.08	7861-	5.4			1-		79-	1.0	7941-	1673-	21.2	5.69	5.12	
	22.08	62239-	5.4			50-	.1	622-	1.0	62911-	13169-	21.1	10409	12149	108-
70		3-								3-		29.3	1.43	2.86	
	33.33	20-				13-	65.0			33-	2	13.9-	1-	7-	40-
71															
													84	56	
73	28.72	765-	.5					8-	1.0	773-	214-	28.0	7.91	10.75	
	28.69	6061-	.5			21-	.3	61-	1.0	6143-	1677-	27.6	1408-	564-	*
76	18.62	1175-	.8					12-	1.0	1187-	209-	17.8	4.45	7.00	
	18.81	9302-	.8			21-	.2	93-	1.0	9416-	1657-	17.8	1217	1329	125-
78	26.18	189-	.1					2-	1.1	191-	48-	25.6	26.78	2.34	
	26.88	1496-	.1			86-	5.7	16-	1.1	1598-	323-	21.6	1177	638	51-
79	26.67	15-								15-	4-	31.9	5.73	7.50	
	30.00	120-								120-	36-	30.7	20	16	231-

EXHIBIT 3-4 STATEMENT OF RETAIL DEPARTMENT OPERATIONS

STATEMENT OF RETAIL DEPARTMENT OPERATIONS   ARMY AND AIR FORCE EXCHANGE SERVICE   PAGE: 26
PCN: GROUP079-01   PERIOD ENDING: 24 SEP 82
LACKLAND AFB   FACILITY NO: 3722 12 09 AX: 0012 EX: 0001 ES: 0010

DEPT	INIT MKON	NET SALES	% TOT	SALES DISCOUNTS	% SLS	MARKDOWNS	% SLS	SHORTAGES	% SLS	TOTAL DECREASES	GP PRIOR EARNED DISC	% SLS	WEEK STK CURR INV	YTD TURNS AVG YTD INV	GMROI %
00	3.00	235-	.2					2-	.9	237-	7-	3.0	2.53	2.53	
	23.90	1880-	.2			24-	1.3	16-	.9	1900-	414-	22.3	138	734	56-
01	24.53	630-	.4					6-	1.0	636-	150-	23.9	5.62	5.51	
	24.83	4985-	.4					50-	1.0	5035-	1160-	23.2	82-	904-	*
02	35.91	210-	.2					2-	.9	220-	77-	35.5	4.30	37.54	
	36.03	1727-	.2					16-	.9	1743-	612-	35.4	218-	46-	*
03	15.00	3059-	2.7			13-	.3	32-	1.0	3211-	569-	14.7	11.05	4.18	
	17.52	30533-	2.7			161-	.5	305-	1.	31819-	4967-	16.2	9914	7310	68-
05	23.27	981-	.7			6-	.6	10-	1.0	997-	216-	22.0	1.53	30.11	
	25.04	7769-	.7			168-	2.2	78-	1.0	8015-	1761-	22.6	350-	258	683-
06	10.10	11-								11-	2-	25.4	14.07	2.21	
	25.00	84-				20-	23.8			104-	6-	8.2	36-	38-	18
07	32.56	1759-	1.2					10-	1.0	1772-	559-	31.9	20.08	4.51	
	31.53	13886-	1.2			25-	.2	139-	1.0	14050-	4266-	30.7	8190-	3082-	*
09	23.73	805-	.6			13-	1.6	8-	1.0	826-	175-	21.7	4.45	11.44	
	24.36	6374-	.6			192-	3.0	64-	1.0	6630-	1359-	21.3	834	557	244-
91	23.36	763-	.5			4-	.5	8-	1.0	775-	169-	22.1	.77	10.84	
	23.79	6040-	.5			88-	1.5	60-	1.0	6188-	1324-	21.9	136	557	238-
93	10.59	1539-	1.1			14-	.9	15-	1.0	1568-	137-	8.9	3.57	8.46	
	12.34	12187-	1.1			227-	1.9	120-	1.0	12534-	1200-	9.8	1276	1440	83-
95	20.00	20-								20-	4-	22.7	10.11	1.23	
	23.35	159-				8-	5.0			167-	31-	19.7	47	129	24-
97															
													795	353	
	18.03	144742-	*			1122-	.8	1447-	1.0	147311-	23992-	16.5	3.53	10.87	
	18.98	1148026-	*			7018-	.6	11462-	1.0	1164506-	202501-	17.6	118855	105423	192-

EARNED DISCOUNT: 709- CURR; 6743- YTD

GROSS PROFIT: 24701- CURR; 209244- YTD

EXHIBIT 3-4 STATEMENT OF RETAIL DEPARTMENT OPERATIONS

current inventory dollar amount for each department. The following items were unique to one report and were provided for each department:

1. Dollar receipts season-to-date
2. Dollar markdowns last year
3. Percentage change in markdowns this year versus last year
4. Markdown usage ranking this year and last year
5. Shortage provision to sales percentage
6. Average dollar inventory year-to-date
7. Gross margin return on investment percentage
8. Prior years sales actual
9. Current year plan sales
10. Percentage over or under prior years sales
11. Last years dollar gross profit and percentage to sales
12. Percentage increase or decrease in gross profit
13. Gross profit per square foot this year and last year
14. Dollar inventory over or under plan
15. Sales per square foot

Each report provides a total of all departments for each of the above items.

C. COST OR NON-RETAIL MERCHANDISE REPORTS

The Army and Air Force Exchange Service provided the comparative cost or non-retail merchandise report shown in Exhibit 3-5. The report is segmented into sales, cost of

[redacted] A17 [redacted]

BRANCH OPERATING STATEMENT PCH STSM CONUS FOOD					3724 BERGSTROM AFB	ARMY AND AIR FORCE EXCHANGE SERVICE 0012 SOUTH TEXAS AREA			0001 ALAMO ER		PER END 25 OCT 1982 PAGE 740	
ER	AX	EXCH	ACT	BR	ACCOUNT	DESCRIPTION	CUR.MO.	%	Y.T.D.	%	STATISTICAL DATA	
0001	0012	3724	21	01	402-00	SALES	34,264-		332,255-		CLOSING FOOD 034	7,969
0001	0012	3724	21	01	405-00	COST OF SALES	7,736	22.58	129,833	39.08		
0001	0012	3724	21	01	405-02	FOOD PROMOTION COSTS	101	0.30	513	0.15		
0001	0012	3724	21	01		DIRECT GROSS PROFIT	26,426-	77.13	201,907-	60.77		
0001	0012	3724	21	01	415-01	PERS.COST-DOLLAR PAID	14,761	43.08	117,123	35.25	AVG EMPLOYEES CUR	11
0001	0012	3724	21	01	417-00	PERS.COST-TRANSFERS	579-	1.69	8,597-	2.59	AVG EMPLOYEES YTD	11
0001	0012	3724	21	01		DIRECT PERSONNEL COST	14,182	41.39	108,525	32.66		
0001	0012	3724	21	01	430-00	SUPPLIES			1,510	0.45	PRODUCTIVITY CUR	3,115
0001	0012	3724	21	01	430-01	REGULAR SUPPLIES	936	2.73	14,013	4.22	PRODUCTIVITY YTD	3,356
0001	0012	3724	21	01	430-04	UNIFORM PURCHASE EXP	39	0.12	57	0.02		
0001	0012	3724	21	01	435-00	LAUNDRY		0.00	257	0.08	AV WAGE COST CUR	1,342
0001	0012	3724	21	01	440-00	UTILITIES	3,172	9.26	18,749	5.64	AV WAGE COST YTD	1,183
0001	0012	3724	21	01	450-00	CASH OVER OR SHORT	32	0.09	84	0.03		
0001	0012	3724	21	01	453-00	ORGANIC TRANSPORTATIONS	308	0.90	1,862	0.56		
0001	0012	3724	21	01	455-01	OTHER MISC EXPENSE	121	0.36	312	0.09		
0001	0012	3724	21	01	459-00	OTHER EMPLOYEE BENEFITS	336	0.98	1,200	0.36		
0001	0012	3724	21	01	465-00	TELEPHONE/TELEGRAPH 8	136	0.40	717	0.22		
0001	0012	3724	21	01	466-01	FREIGHT & EXPRESS			137	0.04		
0001	0012	3724	21	01	470-01	AAFES-PERS-EQUIP ONLY	7	0.02	1,698	0.51		
0001	0012	3724	21	01	470-03	REG-CON FIRMS EQUP ONLY	65	0.19	299	0.09		
0001	0012	3724	21	01	470-04	CASH REGISTERS-EQUP/ACC			67	0.02		
0001	0012	3724	21	01	470-08	R&M PROJECTS-AAFES PERS			549	0.17		
0001	0012	3724	21	01	470-11	COST OF TRA/RUB REMOVAL	121	0.35	1,074	0.32		
0001	0012	3724	21	01	470-16	NOT SUBJECT TO CAPITAL			462	0.14		
0001	0012	3724	21	01	473-00	PRODUCTION TRANSFERS			1,923-	0.58		
0001	0012	3724	21	01	485-00	AUTOMOTIVE DEPRECIATION			792	0.24		
0001	0012	3724	21	01	486-00	DEPRECIATION(NON-AUTO)	1,262	3.69	11,317	3.41		
0001	0012	3724	21	01	495-05	MISC INCOME-SALVAGE			357-	0.11		
0001	0012	3724	21	01		DIRECT OTHER EXPENSE	6,940	19.09	52,884	15.92		
0001	0012	3724	21	01		DIRECT OPERATING RESULTS	5,703-	16.65	40,497-	12.19		

EXHIBIT 3-5 BRANCH OPERATING STATEMENT

sales, gross profit, direct personnel costs, direct other expense, direct operating results, and statistical data. For each of these segments, except the statistical data segment, a dollar amount and a percentage to sales are given for the current month and year-to-date. The direct personnel cost segment is divided into personnel dollars paid and personnel dollars transferred to other departments. The direct other expense segment is also further divided into each of the various expense accounts used by the local AAFES exchange. The statistical data given includes the average number of employees, productivity, and average wage cost for the current month and year-to-date as well as the end-of-month inventory.

D. EXPENSE REPORTS

Expense reports from the May Department Stores Company, the J. C. Penny Company, and the Army and Air Force Exchange Service will be described in detail in the following sections. Besides the reports described below, two expense reports were received from a company with sales listed in the top twenty general merchandisers, desiring that their reports remain confidential. However it should be noted that one report listed expenses by expense center and the other listed expenses by natural division within expense centers.

1. <u>May Department Stores Company</u>

The May Department Stores Company report, Exhibit 3-6, is a comparative statement of operating expenses by expense center and subcenter and is provided on a single 8 1/2 X 11 inch page. Figures are provided for actual dollar expenses, actual expenses as a percentage of sales, and a ranking between other May Department Stores Company branches. Figures are also provided for the difference, better or worse, than plan and last year in dollars and as a percentage to sales. Finally, a column gives the percentage change in expense dollars, actual versus last year. The above listed figures are provided for the current month and year-to-date.

2. <u>J. C. Penny Company</u>

The J. C. Penny Company report, Exhibit 3-7, does not exactly fit a type of report listed in Chapter II, however it can be loosely described as a comparative statement of operating expenses by natural division within expense centers. A current month and year-to-date dollar amount is provided for this year, last year, and the difference between this year and last year for each account used by the activity. Separate reports, which are several pages in length, are provided for each department.

3. <u>Army and Air Force Exchange Service</u>

The Army and Air Force Exchange Service report, Exhibit 3-8, is interpreted to be a statement of operating

THE MAY DEPARTMENT STORES COMPANY

STORE COMPANY EXPENSE ANALYSIS

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Store ______________________

Period ______________________

Acct No.	Account Name	Month: Actual $	Month: Actual %	Month: Actual [illegible]	Month: Better (Worse) Than Plan $	Month: Better (Worse) Than Plan %	Month: Better (Worse) Than Last Year $	Month: Better (Worse) Than Last Year %	Month: % Chg vs. L.Y.	Y-T-D: Actual $	Y-T-D: Actual %	Y-T-D: Actual [illegible]	Y-T-D: Better (Worse) Than Plan $	Y-T-D: Better (Worse) Than Plan %	Y-T-D: Better (Worse) Than Last Year $	Y-T-D: Better (Worse) Than Last Year %	Y-T-D: % Chg vs. L.Y.
[illegible]	General Mgmt.																
1150	Sec. & Shortage																
1200	Real Est. Costs																
1300	Furn. & Fixt.																
1000	Total Gen. Mgmt.																
2110	Contr. Gen. Accts																
2150	Mail & Messenger																
2250	Timekpg & P/R																
2300	Accts Payable																
2500	Sales Audit																
2600	EDP Processing																
2000 -01-21	Exp. Transferred																
2000	Total Control																
3210	Pre-Billing																
3220	Accts Receiv.																
3230	Bill Adjust																
3310	Credit Devel.																
3320	[illegible]																
3330 -10 -80	Bad Debts																
3420	Collections																
3330	Cashier's Off.																
3000	Total Credit																
4200	Gen. Publicity																
4230	Newspaper & Shop.																
4240	Radio Advert.																
4250	Direct Mail																
4280	Television Adv.																
4290	Other Advertis.																
4300	Shows & Exhib.																
4410	Display Prod.																
4450	Sign Shop																
[illegible]	[illegible]																
4000	Total Publicity																
5100	Service & Oper.																
5200	Supply Purch.																
5250	Print Shop																
5300	Gen. Telephone																
5600	Utilities																
5700	Cleaning																
[illegible]	Maint. of Prop.																
5000	Total Operations																
6100	Personnel Empl.																
6300	[illegible] P/R Tax																
6300 -04 -08	P R Taxes																
6300	Supp. Benefits																
6000	Total Personnel																
7100	Receiving & [illegible]																
7200	Transfer [illegible]																
[illegible]	[illegible]																
8050	Selling Superv.																
[illegible]	[illegible]																
8200	Maint. of Stock																
8250	Customer Serv.																
8340	Mail & Teleph.																
8450	Free Cust Pkgs.																
8500	Pay Cust. Pkgs.																
8610	[illegible]																
8700	[illegible]																
[illegible]	[illegible]																
8000	Total Selling																
9100	Merch. Mgmt.																
[illegible]	Buying																
9250	Buying Office																
[illegible]	Merch. Control																
9000	Total Merch.																
	Total																
	Total Sales % Chg																

Rev: [illegible]

EXHIBIT 3-6 STORE COMPANY EXPENSE ANALYSIS

ACTIVITY NO
007500 MERCHANDISE(RETAIL) EXPENSE ANALYSIS

ACCOUNT		PERIOD			YEAR TO DATE		
CODE	TITLE	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR
	SALARIES						
[illegible]	SALARY EXPENSE - SELLING						
7042	SALARY ADJUSTMENTS						
7046	SALARY TRANSFERS - SELLING						
	TOT SELLING AND SERV SALARIES						
7003	SALARY EXPENSE - MANAGEMENT						
7048	SALARY TRANSFERS - MGMT						
	TOT MANAGEMENT SALARIES						
7009	SALARY EXP - SALES SUPPORT						
7049	SALARY TRANSFERS - SALES SUPPORT						
	TOT SALES SUPPORT SALARIES						
	TOTAL SALARIES						
	PAYROLL TAXES						
7513	FICA & FUI TAX EXPENSE						
7517	SUI TAXES						
	TOT PAYROLL TAXES						
	ADVERTISING						
7101	ADVERTISING EXPENSE NEWSPAPERS						
7106	ADVERTISING EXPENSE MISC ITEMS						
7110	ADVERTISING EXPENSE SALES CONTESTS						
7530	NATIONAL ADVERTISING COST						
	TOT ADVERTISING						
	DISPLAY						
7131	DISPLAY MATERIAL FROM CENT OFF						
7132	DISPLAY MATERIAL OTH THAN LOCAL PUR						
7133	DISPLAY SAMPLES						
7139	DISPLAY SUPPLIES-LOCAL PURCH & FRT						
	TOT DISPLAY						
	GENERAL EXP MDSE RELATED						
7386	TRUCK EXPENDABLES						

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO
007900 MERCHANDISE(RETAIL)

EXPENSE ANALYSIS

ACCOUNT		PERIOD			YEAR TO DATE		
CODE	TITLE	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR
7459	TRANSFER OF REFUND						
	TOT MERCHANDISE RELATED						
	GENERAL EXP SALES RELATED						
7204	WRAPPING SUPPLIES						
7228	POINT OF SALE SUPPLIES & SALES BOOK						
7318	RETURN GOODS TRANSPORTATION EXP						
7431	OVER/SHORT CASH						
7438	NON-COLLECTIBLE CHECKS & CODS						
9051	MISCELLANEOUS INCOME						
	TOT SALES RELATED						
	GENERAL EXP PROPERTY RELATED						
7231	LIGHT HEAT WATER						
7247	UNIFORMS & LAUNDRY EXP						
7299	FIXTURE MAINTENANCE SUPPLIES						
7304	TRASH REMOVAL EXPENSE						
7308	HOUSEKEEPING SERV & SUPP						
	TOT PROPERTY RELATED						
	GENERAL EXP ADMIN RELATED						
7202	STATIONERY,PRINTING&OFFICE SUPPLIES						
7207	STORE & OFFICE ACCESSORIES						
7311	MISCELLANEOUS FREIGHT & CARTAGE						
7341	OUTSIDE SERVICE BUREAU CHARGE						
7351	TELEPHONE AND TELEGRAM CHARGES						
7401	TRAVEL EXPENSE						
7404	TRAINING FEES						
7410	PERSONNEL RELATIONS EXPENSE						
7472	ASSOC DONATIONS TO CHARITIES						
7491	MISCELLANEOUS EXPENSE						
7493	NATIONWIDE SERVICE CHARGE						
	TOT ADMIN RELATED						
	TOTAL GENERAL EXPENSE						
	INT EXP ON STOCK POS & AVE CASH						

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO
007900 MERCHANDISE(RETAIL) EXPENSE ANALYSIS

ACCOUNT		PERIOD			YEAR TO DATE		
CODE	TITLE	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR
	TOTAL OPERATING EXP						
	FACILITY EXPENSES						
	RENT						
7601	LANDLORD RENT EXPENSE						
7621	REAL ESTATE TAXES						
7632	RENT PAID - PENNEY OWNED PROPERTIES						
	TOT RENT						
	PLANT AND EQUIPMENT EXP						
7282	MAINT CONTRACTS POS EQUIPMENT						
7298	PAINTING						
7301	MAINTENANCE REPAIR - BUILDINGS						
[illegible]	REPAIRS TO FIXTURES						
7309	SECURITY EXPENSE-ALARM SYS AND SVCS						
[illegible]	TRUCK MAINTENANCE & REPAIRS						
[illegible]	DEPRECIATION-FURNITURE&FIXTURES						
	TOT PLANT AND EQUIPMENT EXP						
	TAXES, OTHER THAN PAYROLL						
[illegible]	LOCAL LICENSES TAX						
[illegible]	PERSONAL PROP TAX - TANGIBLE&INTANG						
[illegible]	FRANCHISE TAX-INCOME						
[illegible]	FRANCHISE TAXES-CAPITAL						
[illegible]	STATE & LOCAL INCOME TAXES						
[illegible]	PERSONAL PROPERTY TAX ACCR & REV						
7516	SALES & USE TAX						
	TOT TAXES, OTHER THAN PAYROLL						
	SUPPORT EXPENSES						
	DISTRICT & REGIONAL SERVICES						
7485	DISTRICT & REG SERVICES COSTS						
	TOT DISTRICT AND REG SERVICES						
	CORPORATE SERVICES						
[illegible]	MED DENTAL&NON-CONTR TERM LIFE						

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO. 003800 — TOTAL SERVICE ACTIVITIES — EXPENSE ANALYSIS

ACCOUNT		PERIOD			YEAR TO DATE		
CODE	TITLE	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR	THIS YEAR	LAST YEAR	OVER* UNDER
	TOT ADMIN RELATED						
	TOTAL GENERAL EXPENSE						
	TOTAL OPERATING EXP						
	FACILITY EXPENSES						
	PLANT AND EQUIPMENT EXP						
7298	PAINTING						
7301	MAINTENANCE REPAIR - BUILDINGS						
7302	REPAIRS TO FIXTURES						
7387	TRUCK MAINTENANCE & REPAIRS						
	TOT PLANT AND EQUIPMENT EXP						
	TAXES, OTHER THAN PAYROLL						
7511	MISC-LOCAL EMPLOYMENT TAXES						
	TOT TAXES, OTHER THAN PAYROLL						
	SUPPORT EXPENSES						
	CORPORATE SERVICES						
7051	IED DENTAL&NON-CONTR TERM LIFE						
[illegible]200	CONSUMER AFFAIRS EXPENSE.						
[illegible]345	PENNET COST						
[illegible]	[illegible] PAYROLL COST						
	TOT CORPORATE SERVICES						
	TOTAL FACILITY AND SUPPORT EXP						

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO 003103 CATALOG DESK

EXPENSE ANALYSIS

ACCOUNT		PERIOD			YEAR TO DATE		
CODE	TITLE	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR
	ADVERTISING						
127	CATALOG ADV-CAT DIV CHGS TO STORES						
	TOT ADVERTISING						
	TOTAL GENERAL EXPENSE						
	TOTAL OPERATING EXP						

EXHIBIT 3-7 EXPENSE ANALYSIS

ARMY AND AIR FORCE EXCHANGE SERVICE
EXPENSE ANALYSIS STATEMENT

COMMAND NAME | NO | EXCHANGE NAME | NO | REGION NAME | NO 0001 | MONTH ENDING

DIRECT OTHER EXPENSES

ACCOUNT	Current Period This Year	% of Sales	Year to Date This Year	% of Sales	LY YTD % of Sales	Current Period This Year	% of Sales	Year to Date This Year	% of Sales	LY YTD % of Sales	Current Period This Year	% of Sales	Year to Date This Year	% of Sales	LY YTD % of Sales	Current Period This Year	% of Sales	Year to Date This Year	% of Sales	LY YTD % of Sales	Line No.
Supplies	18123	131	80232	131	130	5703	243	71926	110	327	558	126	5014	131	139	56	3	56			1
Laundry	1232	9	3760	5	5	73	5	820	1	6	733	47	4030	29	22						2
Utilities	11255	97	30010	39	62	3425	193	12597	112	85	209	111	6183	119	6	3893	231	31720	271	5	3
Concession losses	352		1071			29		253	1	1	221	111	1476	5							4
Cash Uni...	7		305													5756	354	41448	359	283	5
Other employee benefits						1003	44	2500	43	31											6
Repairs & maintenance	9816	110	67261	120	112	6216	471	32896	187	561	3632	103	17369	106	172	125	7	2256	115		7
Miscellaneous	322	124	38091	121	110	71	5	2401	119	28	1190	110	6138	113	5			13			8
	671		3951	5	3	1076	47	11091	163	54	651	133	4339	27	48	88	5	512	4	6	9
Total direct other expenses	40070	123	319143	120	108	17447	760	146590	838	771	6915	326	36542	227	205	10111	601	76002	646	298	10

OVERHEAD-PERSONNEL COSTS

ACCOUNT	General & Administrative: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Depot/Warehouse: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Region: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Central Office: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Line No.
Executive	25152	163	163176	133	132																11
Audit & Inspection																					12
Personnel & Administrative																					13
Finance & Accounts			2691																		14
Systems Data Processing																					15
Logistics																					16
Merchandise Management																					17
Retail																					18
Food Services & Vending	5742	125	52718	12	11																19
Engineering																					20
Motor Pool																					21
Repairs & Maint - Non Auto																					22
																					23
Personnel Costs Transferred																					24
Total Overhead Pers. Costs	33143	106	222623	72	71																25

OVERHEAD-OTHER EXPENSES

ACCOUNT	General & Administrative: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Depot/Warehouse: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Region: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Central Office: CP This Year	% of Sales	YTD This Year	% of Sales	LY YTD %	Line No.
Rent																					26
Stationery & Supplies	702	4	22026	6	6																27
Data Processing Supplies																					28
Utilities																					29
Cash Short (Over) ... CAP	30		1011	4	4																31
Data Process Equip Rental																					32
Personnel Programs																					33
Travel																					34
Telephone & Telegraph	382	1	6122	1	6																35
Freight Express & Postage	28		704																		36
Repairs & Maint - Non Auto	839	6	12770	4	4																37
Insurance	172		1631																		38
Cost of Transport Equipment																					39
Miscellaneous Expenses	6878	22	33007	11	2																40
			206																		41
Expense Transfers																					42
Depreciation Automotive	228	2	6215	2	2																43
Depreciation Other	77		877																		44
Total Overhead Other Exp	12337	37	88915	22	24																45
																					46
Grand Total Overhead Exp	46430	129	311538	101	96																47

EXHIBIT 3-8 EXPENSE ANALYSIS STATEMENT

expenses by natural division within a department. In comparison to the J. C. Penny Company report, which gives a detailed breakdown of expenses, the AAFES report aggregates various expenses under a few natural division or account headings which allows the presentation of all departments on one 11 X 8 1/2 inch page. Columns containing dollars and a percentage to sales for the current period and year-to-date are provided for each department as well as a column for a last year year-to-date percentage of sales.

E. BRANCH STORE REPORTS

The J. C. Penny Company, F. W. Woolworth Company, and the Army and Air Force Exchange Service provided the Branch Store reports shown in Exhibits 3-9, 3-10, 3-11, 3-12, and 3-13. Besides these reports the expense reports in the previous section are provided to the branch stores by J. C. Penny Company and AAFES.

1. J. C. Penny Company

The J. C. Penny Company report, Exhibit 3-9, consists of two 11 X 8 1/2 inch pages. The first page is an operating statement and the second page is an analysis of operating profit and an operating summary by periods.

The Operating Statement is divided into segments for sales, credit sales, gross profit, operating expenses, and other expenses. Actual dollar amounts, actual percentage this year, plan percentage, and actual percentage last year

OPERATING STATEMENT RECAP

NET SELLING AREA SQUARE FEET	PERIOD					YEAR TO DATE				
	AMOUNT	ACTUAL % THIS YEAR	STORE PLAN %	DIST/REG PLAN %	ACTUAL % LAST YEAR	AMOUNT	ACTUAL % THIS YEAR	STORE PLAN %	DIST/REG PLAN %	ACTUAL LAST YEAR
SALES % OVER/UNDER * LAST YEAR										
MERCHANDISE										
CATALOG DESK										
SERVICES										
RESTAURANT										
LICENSED DEPARTMENTS										
TOTAL SALES										
CREDIT SALES–JCP CARD % NET SALES										
CREDIT SALES–BANK CARDS % NET SALES										
STORE MARKDOWNS % MDSE SALES										
PRICE BREAKS % MDSE SALES										
PRICE REDUCTIONS % MDSE SALES										
ASSOCIATE DISCOUNTS % MDSE SALES										
SHRINKAGE % MDSE SALES										
BEGINNING INVENTORY % MARKUP										
PURCHASES AT RETAIL % MARKUP										
SPECIAL MARKUP ADJUST. % PURCHASES										
GROSS MARGIN % MDSE SALES										
MERCHANDISING CHARGE % PURCHASES										
FREIGHT % PURCHASES AT RETAIL										
ENDING INVENTORY RETAIL % MARKUP										
COST										
		% TO TOTAL SALES					% TO TOTAL SALES			
GROSS PROFIT										
SALARIES										
PAYROLL TAXES										
ADVERTISING AND DISPLAY										
GENERAL EXPENSE										
INTEREST										
TOTAL OPERATING EXPENSE										
OPERATING PROFIT/LOSS*										
RENT										
PLANT AND EQUIPMENT										
TAXES										
DISTRICT AND REGIONAL SERVICES										
CORPORATE SERVICES										
STORE PROFIT/LOSS*										

EXHIBIT 3-9 OPERATING STATEMENT

ANALYSIS OF ' ERATING PROFIT

YEAR TO DATE	MERCHANDISE			CATALOG DESK		CUSTOMER SERVICES		RESTAURANT	LICENSED	PRE-OPENING/ REGIONAL PROJECTS
	AMOUNT	ACTUAL %	LAST YR %	AMOUNT	ACTUAL %	AUTOMOTIVE	ALL OTHER			
SALES										
COST OF SALES										
GROSS PROFIT										
SELLING & SERV. SALARIES										
DEPARTMENT PROFIT/LOSS*										
MANAGEMENT SALARIES										
SALES SUPPORT SALARIES										
MDSE. HANDLING SALARIES										
TOTAL SALARIES										
PAYROLL TAXES										
ADVERTISING										
DISPLAY										
GENERAL EXPENSE										
MERCHANDISE RELATED										
SALES RELATED										
PROPERTY RELATED										
ADMINISTRATIVE										
INTEREST										
TOTAL OPERATING EXPENSE										
OPERATING PROFIT/LOSS*										

OPERATING SUMMARY BY PERIODS

PERIOD	TOTAL SALES				STORE PROFIT/LOSS*		RETAIL BOOK INVENTORY			AVERAGE CASH ON HAND	FIXTURE & EQUIPMENT ADDITIONS	GROSS RETURN ON MERCHANDISE INVESTMENT	
	PER SQ. FT.	AMOUNT	% OVER/UNDER* LAST YR ACTUAL	PLAN	AMOUNT	% TO TOT. SALES	AMOUNT	RATIO	O*/U*%			TY	LY

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EXHIBIT 3-9 OPERATING STATEMENT

SYNDICATE REPORT

DATE NO. 9 YR-82
RUN DATE 10/06/82

ACCT NO. DESCRIPTION	CURRENT MONTH THIS YEAR	C/S	C/S INCR.	INCR. OVER ACTUAL 81	YEAR-TO-DATE 8 MONTHS THIS YEAR	C/S	C/S INCR.	INCR. OVER ACTUAL 81	INV. MEMO	INV MEMO INCREASE
MERCHANDISE SALES										
MERCHANDISE GROSS										
DEPARTMENT 1340 SALES										
DEPARTMENT 1340 GROSS										
TOTAL OWNED SALES										
TOTAL GROSS										
TOTAL LICENSEE SALES										
TOT SALES INCLUDING LIC										
3020 MDSE SALARIES										
3021 DIV.DEPT MANAGER										
3030 SICK PAY										
TOT MDSE SALARIES										
MDSE WORK HOURS (MEMO)										
3520 DEPT 1340 SALARIES										
3530 DEPT 1340 SICK PAY										
TOT 1340 SALARIES										
1340 WORK HOURS (MEMO)										
TOT SALARY										
3310 LEASE RENT										
3320 ALT TAXES + INS										
3330 SUBTENANT CREDIT										
3340 BUILDING EXPENSE										
TOT BEFORE LIC INC										
3361 LIC INCOME (RENT)										
NET RENT										
3050 EMPLOYMENT COSTS										
3240 INS PRORATE										
3531 1340 EMP TAX(MEMO)										
3970 ADM PRORATE										
3950 TAX + DEPR PRORATE										
TOT PRORATE										
3070 ADVERTISING										
3071 ADVTG SALARIES										
3072 LICENSEE ADVTG										
3073 COOP ADVTG										
TOT ADVTG										
3430 OWN CREDIT EXP										
3431 BANK CREDIT EXP										
3432 CUST SERVICE EXP										
3283 INSTALLMENT CONTR										
CREDIT EXP										
3040 ELECTRIC										
TOT ELECTR										
3050 MDAP SUP.										
EMP COST (MEMO)										
TOTAL SALARY (MEMO)										
TOT EMP CST + SAL(MEMO)										

EXHIBIT 3-10 SYNDICATE REPORT

SYNDICATE REPORT

DATE MO- 9 YR-82
RUN DATE 10/06/82

ACCT NO.	SUNDRY ACCOUNTS	CURRENT MONTH THIS YEAR	C/S	C/S INCR.	INCR. OVER ACTUAL 81	YEAR-TO-DATE 9 MONTHS THIS YEAR	C/S	C/S INCR.	INCR. OVER ACTUAL 81	INV. MEMO	INV MEMO INCREASE
3110	AIR COND. REPAIR										
3120	ELECTRIC REPAIR										
3130	PLUMBING REPAIR										
3140	CARPET + MISC REP										
3143	AUTOMOTIVE DEPT										
3150	ELEVATOR REPAIR										
3160	OFFICE MACHINE REP										
3161	CASH REGISTER REP										
3643	DEPT 1340 REPAIR										
3823	REPAIR ALT EXPENSE										
	TOT REPAIR										
3150	MAINT. MATERIAL										
*3350	1340 CLEAN + SOAP										
3824	MAINT. ALTERATIONS										
	TOT MAINT										
3200	MAINT CONT										
3301	TELEPHONE										
3310	OTHER COMMUN.										
	TOT COMMUN										
3413	SECURITY										
3523	PROM.MATR + SIGNS										
3523	PRIZES										
*3570	1340 MENU SIGNS										
	TOT DISPLAY MATR										
3250	STATIONARY										
3270	SUPPLIES + MATR										
*3540	1340 SERV + BAKERY										
3660	1340 REPLACEMENT										
*3664	1340 GLASSWARE USE										
*3665	1340 CROCKERY USE										
*3666	1340 SILVERWAR USE										
	TOT SUPPLIES										
3080	HEAT + GAS										
3220	TRAVEL + DELIVERY										
3221	PARS EXPENSE										
3330	DONATIONS										
3320	BUS ORG. CONTRIB.										
3330	WATER										
3410	BAD CHECKS										
3360	WASTE REMOVAL										
3369	WINDOW CLEANING										
3370	SERVICES PURCHASED										
*3510	1340 UNIFORM+LAUND										
	TOT SERV PURCHASED										
3320	PAY TELEPHONE										
3411	FREIGHT + CARTAGE										
3412	BANK SERVICE CHG										
3415	OUTSIDE INV. SVE.										
3419	EMPLOYMENT EXPENSE										
3420	UNCLASSIFIED										
3660	DEPT 1340 MISC										
3862	MONEY ORDER INCOME										
	TOT MISC										
3850	ALT OPEN EXPESAL										
3851	OPEN ADVERTISING										
3860	ALT OPEN EXPENSE										
	TOT OPENING EXP										
	TOT OTHER										
	TOT SUNDRY										
TOTAL STORE EXPENSE											
ESTIMATED PROFIT											
TOT DEPT 1340 (MEMO)											

EXHIBIT 3-10 SYNDICATE REPORT

BRANCH OPERATING STATEMENT — ARMY AND AIR FORCE EXCHANGE SERVICE — 0001 — PER END — PAGE

PCN STSH CONUS RETAIL

ER	AX	EXCH ACT	BR	ACCOUNT DESCRIPTION	CUR.MO.	%	Y.T.D.	%	STATISTICAL DATA	
0001	0012	3722		302-00 RETAIL SALES	3,261,771-		26,252,055-		CLOSING RET 031	6,806,698
0001	0012	3722		305-00 COST OF SALES- RETAIL	2,602,864	79.80	20,818,024	79.30	STOCK TO SALES CH	1.977
0001	0012	3722		310-00 EARNED DISCOUNTS	15,284-	0.47	148,570-	0.57		
0001	0012	3722		DIRECT GROSS PROFIT	674,191-	20.67	5,582,601-	21.27		
0001	0012	3722		315-01 PERS.COST-DOLLAR PAID	326,434	10.01	2,355,701	8.97	AVG EMPLOYEES CUR	308
0001	0012	3722		317-00 PERS.COST-TRANSFERS	2,343	0.07	28,007	0.11	AVG EMPLOYEES YTD	298
0001	0012	3722		DIRECT PERSONNEL COST	328,777	10.08	2,393,709	9.08		
0001	0012	3722		330-00 SUPPLIES			19,109	0.07	PRODUCTIVITY CUR	10,590
0001	0012	3722		330-01 REGULAR SUPPLIES	10,125	0.31	61,125	0.23	PRODUCTIVITY YTD	11,012
0001	0012	3722		335-00 LAUNDRY	1,239	0.04	9,760	0.04		
0001	0012	3722		337-02 COMMUNICATION CHARGES	951	0.03	7,277	0.03	AV WAGE COST CUR	1,060
0001	0012	3722		340-00 UTILITIES	15,294	0.47	90,018	0.34	AV WAGE COST YTD	988
0001	0012	3722		350-00 CASH OVER OR SHORT	352	0.01	1,071	0.00		
0001	0012	3722		353-00 ORGANIC TRANSPORTATION*	864	0.03	4,064	0.02		
0001	0012	3722		355-01 MISC OTHER EXPENSE	837	0.03	10,223	0.04		
0001	0012	3722		355-02 ALTERATIONS&REPAIRS	3,066	0.09	19,756	0.08		
0001	0012	3722		355-04 FREE ALT-DPSC MDSE	293	0.01	4,188	0.02		
0001	0012	3722		355-19 SALES PROM-ADV/PUBL EXP			46	0.00		
0001	0012	3722		355-21 RING RESIZING EXPENSES	48	0.00	90	0.00		
0001	0012	3722		355-25 UNCOLL CHG SALES - MCSS	287	0.01	1,737	0.01		
0001	0012	3722		355-36 SALES PROM- EXP/INCOME			225	0.00		
0001	0012	3722		355-37 SALES PROM- VIS/MERCH	1,427	0.04	12,508	0.05		
0001	0012	3722		355-[illegible] BATTERY WARRANTY EXP	1,361	0.04	7,263	0.03		
0001	0012	3722		358-00 COMMISSIONS / FEES	9	0.00	303	0.00		
0001	0012	3722		365-00 TELEPHONE/TELEGRAPH *	1,489	0.05	13,941	0.05		
0001	0012	3722		366-01 FREIGHT & EXPRESS *	429	0.01	5,720	0.02		
0001	0012	3722		366-02 POSTAGE *	91	0.00	1,454	0.01		
0001	0012	3722		366-04 DPSC FRGHT/POST EXPENSE	202	0.01	717	0.00		
0001	0012	3722		370-01 AAFES PERS-EQUIP ONLY	1,242	0.04	9,474	0.04		
0001	0012	3722		370-03 REG-COM FIRMS EQUP ONLY	296	0.01	5,099	0.02		
0001	0012	3722		370-04 CASH REGISTERS-EQUP/ACC	170	0.01	9,400	0.04		
0001	0012	3722		370-05 REG-AAFES PERS	120	0.00	262	0.00		
0001	0012	3722		370-08 R&M PROJECTS-AAFES PERS	959	0.03	18,269	0.07		
0001	0012	3722		370-09 R&M PROJECTS-COM FIRMS			2,789	0.01		
0001	0012	3722		370-11 COST OF TRA/RUB REMOVAL	2,294	0.07	13,764	0.05		
0001	0012	3722		370-12 COST OF JANITORIAL SERV	400	0.01	1,870	0.01		
0001	0012	3722		370-13 COST FOR PARTS,MAT& SUP			205	0.00		
0001	0012	3722		370-16 NOT SUBJECT TO CAPITAL	324	0.01	6,125	0.02		
0001	0012	3722		381-00 INSURANCE *	1,874	0.06	12,308	0.05		
0001	0012	3722		385-00 AUTOMOTIVE DEPRECIATION	1,184	0.04	9,477	0.04		
0001	0012	3722		386-00 DEPRECIATION(NON-AUTO)	21,264	0.65	174,535	0.66		
0001	0012	3722		391-02 SALE-MONEY ORDERS	1,363-	0.04	13,698-	0.05		
0001	0012	3722		391-13 TELEGRAPH SERV	1,051-	0.03	6,824-	0.03		
0001	0012	3722		391-14 HUNT/FISH LICENSE	148-	0.00	369-	0.00		
0001	0012	3722		395-01 MISC INCOME-OTHER *	134-	0.00	1,021-	0.00		
0001	0012	3722		395-04 MISC INCOME-WRAP/PACK *	153-	0.00	2,583-	0.01		
0001	0012	3722		395-05 MISC INCOME-SALVAGE *	33-	0.00	208-	0.00		
0001	0012	3722		395-10 INCOME-CANCLD LAYAYS *	433-	0.01	6,891-	0.03		
0001	0012	3722		395-30 NONREFUND LAYAWAY FEE	2,381-	0.07	2,381-	0.01		
0001	0012	3722		395-42 BATTERY SALVAGE INCOME	292-	0.01	2,103-	0.01		

EXHIBIT 3-11 BRANCH OPERATING STATEMENT

BRANCH OPERATING STATEMENT
PCN 5TSH CONUS RETAIL

ARMY AND AIR FORCE EXCHANGE SERVICE

0001

PER END
PAGE

ER %X EXCH ACT BR	ACCOUNT DESCRIPTION	CUR.MO.	%	Y.T.D.	%	STATISTICAL DATA
0081 0012 3722	DIRECT OTHER EXPENSE	62,519	1.92	498,156	1.90	
0081 0012 3722	DIRECT OPERATING RESULTS	282,894-	8.67	2,700,735-	10.29	

EXHIBIT 3-11 BRANCH OPERATING STATEMENT

ARMY AND AIR FORCE EXCHANGE SERVICE
INCOME AND EXPENSE
OPERATING STATEMENT

COMMAND NAME	NO	EXCHANGE NAME	NO	REGION NAME	NO	MONTH ENDING
			3722 8012		0001	

CURRENT PERIOD

LINE NO	THIS YEAR	% OF SALES	% CHG FROM FP	% CHG FROM LY	FINANCIAL PROGRAM	% OF SALES	LAST YEAR	% OF SALES	DESCRIPTION
	SECTION 1								RETAIL
1	115332		8B	13B	116315		117830		SALES PER CAPITA
2	3261776-		5A	5A	3139000-		3128201-		NET SALES
3	674191-	2067	1A	6A	672000-	2141	669872-	2141	GROSS PROFIT
4	328777	1008	10A	12A	298400	951	292708	936	DIRECT PERSONNEL COSTS
5	40073	123	38A	39A	29000	92	28923	86	DIRECT OTHER EXPENSES
6	22449	69	6A	7A	23700	76	24386	72	DEPRECIATION
8	282894-	867	12B	14B	321900-	1025	327857-	1048	DIRECT OPERATING PROFIT
	SECTION 2								FOOD
1	1093		17B	17B	1315		1313		SALES PER CAPITA
2	223477-		6B	3B	249000-		228998-		NET SALES
3	143222-	6491	4B	4B	154700-	6212	154703-	6556	GROSS PROFIT
4	76712	3430	2A	3A	78400	3213	73801	3223	DIRECT PERSONNEL COSTS
5	17497	760	5B	10B	18300	750	19294	843	DIRECT OTHER EXPENSES
6	9438	437	3A	12B	9300	417	9834	211	DEPRECIATION
8	41623-	1814	7B	19B	44700-	1832	48172-	2130	DIRECT OPERATING PROFIT
	SECTION 3								SERVICES
1	949		20B	16B	1186		1125		SALES PER CAPITA
2	199209-		9B	2A	220000-		196220-		NET SALES
3	14491-	727	37B	53B	22900-	1041	30578-	1558	GROSS PROFIT
4	18989	953	22B	22B	24500	1114	24345	1241	DIRECT PERSONNEL COSTS
5	6419	322	5A	9A	3100	141	2703	138	DIRECT OTHER EXPENSES
6	3520	177	5B	6B	3700	168	3756	191	DEPRECIATION
8	14439	725	72B	3B	8400	382	2301	112	DIRECT OPERATING PROFIT
	SECTION 4								VENDING
1	802		22B	22B	1024		1023		SALES PER CAPITA
2	168361-		11B	6B	190000-		178374-		NET SALES
3	72716-	4319	4B	6B	76100-	4005	77724-	4357	GROSS PROFIT
4	1703	101	5	3B	1700	89	1761	99	DIRECT PERSONNEL COSTS
5	10111	601	56A	52A	6500	342	6647	373	DIRECT OTHER EXPENSES
6									DEPRECIATION
8	60900-	3617	10B	12B	67200-	3574	63315-	3836	DIRECT OPERATING PROFIT
	SECTION 5								TOTAL ALL ACTIVITIES
0	21000		13A	20A	18557		17839		AVERAGE MILITARY STRENGTH
1	18375		10B	14B	20940		21392		SALES PER CAPITA
2	3858319-		2B	3A	3793000-		3731794-		NET SALES
3	904620-	2344	1B	2B	917700-	2419	924879-	2478	GROSS PROFIT
4	420183	1110	6A	9A	403000	1062	392618	1052	DIRECT PERSONNEL COSTS
5	74049	192	30A	33A	56900	150	55567	149	DIRECT OTHER EXPENSES
6	31408	81	1B	1A	31700	84	30977	83	DEPRECIATION
8	370983-	961	13B	17B	428100-	1129	449716-	1194	DIRECT OPERATING PROFIT
9	33193	86	21A	18A	27500	73	28600	77	G & A PERSONNEL COST
10	13353	35	63A	39A	8100	21	9603	26	G & A OTHER EXPENSES
12									DEPOT/WHSE PERSONNEL COSTS
13									DEPOT WHSE OTHER EXPENSES
15	324489-	841	17B	20B	390500-	1030	407512-	1092	OPERATING PROFIT
16	185068-	480	19B	9B	227800-	601	203061-	545	CONCESSION INCOME
17	4178-	11	33B	20B	6200-	16	3496-	9	OTHER INCOME
18	513732-	1331	18B	16B	624500-	1646	614070-	1646	PROF BEFORE CENT OFFICE EXP
19									HQ CO PERSONNEL COSTS
20									HQ CO OTHER EXPENSES
22	513732-	1331	18B	16B	624500-	1646	614070	1646	NET EARNINGS
23									HQ AAFES EXPENSE
24									HQ AAFES OTHER INCOME
25	513732-	1331	18B	16B	624500-	1646	614070-	1646	AAFES NET EARNINGS

LINE NO	DESCRIPTION	THIS YEAR	% OF SALES	% CHG FROM FP	% CHG FROM LY	FINANCIAL PROGRAM	% OF SALES	LAST YEAR	% OF SALES
	RETAIL								
1	SALES PER CAPITA	133940		6B	10A	141690		121909	
2	NET SALES	26252059-		5A	9A	24902000-		24043621-	
3	GROSS PROFIT	5582601-	2127	4A	8A	5352000-	2149	5170139-	2150
4	DIRECT PERSONNEL COSTS	2383709	908	2A	10A	2334400	937	2162742	900
5	DIRECT OTHER EXPENSES	314193	120	19A	24A	264900	106	254172	106
6	DEPRECIATION	184013	70	2A	5A	181100	73	174641	73
8	DIRECT OPERATING PROFIT	2700735-	1029	5A	5A	2571600-	1033	2578582-	1072
	FOOD								
1	SALES PER CAPITA	8926		17B	2A	10720		8781	
2	NET SALES	1754719-		7B	1B	1884000-		1731934-	
3	GROSS PROFIT	1097639-	6255	3B	B	1132300-	6010	1125908-	6351
4	DIRECT PERSONNEL COSTS	573875	3271	8B	3A	626100	3323	556825	3215
5	DIRECT OTHER EXPENSES	146628	836	5B	10A	153800	816	133523	771
6	DEPRECIATION	44051	251	14A	13B	38600	205	38961	225
8	DIRECT OPERATING PROFIT	332913-	1897	6B	10B	313800-	1666	370598-	2140
	SERVICES								
1	SALES PER CAPITA	8184		19B	1B	10128		8277	
2	NET SALES	1608798-		10B	1B	1780000-		1632492-	
3	GROSS PROFIT	256501-	1594	38A	16B	185200-	1040	306859-	1800
4	DIRECT PERSONNEL COSTS	149022	926	28B	27B	207000	1163	204414	1250
5	DIRECT OTHER EXPENSES	36547	227	28B	9A	28500	160	33425	205
6	DEPRECIATION	29839	185	2B	1B	30300	170	30264	185
8	DIRECT OPERATING PROFIT	51892-	255	3A	5A	80600	453	39055-	239
	VENDING								
1	SALES PER CAPITA	5263		13B	7A	6868		5556	
2	NET SALES	1172270-		3B	7A	1207000-		1095853-	
3	GROSS PROFIT	506809-	4319	6B	8A	478200-	3962	469915-	4288
4	DIRECT PERSONNEL COSTS	12863	111	3B	12A	13400	111	11662	106
5	DIRECT OTHER EXPENSES	76002	648	13B	8A	67000	555	32610	298
6	DEPRECIATION								
8	DIRECT OPERATING PROFIT	417843-	3560	5B	2B	397800-	3296	425742-	3885
	TOTAL ALL ACTIVITIES								
0	AVERAGE MILITARY STRENGTH	19658		12A	8	17575		19722	
1	SALES PER CAPITA	156612		8B	8A	169405		144324	
2	NET SALES	30787044-		3A	8A	29773000-		28503936-	
3	GROSS PROFIT	7430525-	2418	4A	6A	7147700-	2401	7046822-	2472
4	DIRECT PERSONNEL COSTS	3119670	1013	2B	6A	3180900	1068	2935245	1030
5	DIRECT OTHER EXPENSES	573821	186	12A	26A	514200	173	453731	159
6	DEPRECIATION	257904	84	3A	6A	250000	84	243866	86
8	DIRECT OPERATING PROFIT	3492085-	1134	9A	2A	3202600-	1076	3413979-	1198
9	G & A PERSONNEL COST	222623	72	6A	10A	210600	71	201810	71
10	G & A OTHER EXPENSES	88914	29	35A	45A	65800	22	61601	22
12	DEPOT/WHSE PERSONNEL COSTS								
13	DEPOT WHSE OTHER EXPENSES								
15	OPERATING PROFIT	3180547-	1033	9A	1A	2925200-	983	3150766-	1105
16	CONCESSION INCOME	1314741-	427	11A	4A	1185400-	398	1262856-	443
17	OTHER INCOME	37652-	12	16B	3A	44200-	15	36671-	13
18	PROF BEFORE CENT OFFICE EXP	4532941-	1472	9A	2A	4156200-	1396	4450294-	1561
19	HQ CO PERSONNEL COSTS								
20	HQ CO OTHER EXPENSES								
22	NET EARNINGS	4532941-	1472	9A	2A	4156200-	1396	4450294-	1561
23	HQ AAFES EXPENSE								
24	HQ AAFES OTHER INCOME								
25	AAFES NET EARNINGS	4532941-	1472	9A	2A	4156200-	1396	4450294-	1561

AAFES FORM 7400-10 (REV SEPT 76) (PREV EDITION USABLE)

A ABOVE FP OR LY   B BELOW FP OR LY   *100% AND MORE

EXHIBIT 3-12 INCOME AND EXPENSE OPERATING STATEMENT

ARMY AND AIR FORCE EXCHANGE SERVICE
ANALYSIS AND STATISTICS STATEMENT
PART I

COMMAND NAME	NO	EXCHANGE NAME	NO	ER/REGION NAME	NO	MONTH ENDING
			3722 8012		0001	

SECTION 1 — EMPLOYEE STATISTICS

DESCRIPTION	CURRENT PERIOD: THIS YEAR	PROGRAM	LAST YEAR	% VARIANCE FROM: PROG	LY	YEAR TO DATE (MONTHLY AVERAGES): THIS YEAR	PROGRAM	LAST YEAR	% VARIANCE FROM: PROG	LY
COMPUTED AVERAGE NUMBER OF EMPLOYEES										
RETAIL	308	282	280	7	7R	298	283	281	52	61
FOOD	69	77	70	9	1B	69	73	70	58	1B
SERVICES	18	24	24	24	20B	20	24	24	176	200
VENDING		6	6				6	6		
G & A	2	16	16	316	31R	16	16	15	13	253
DEPOT/WHSE										
ER/CO										
TOTAL	411	409	401	39	4R	407	398	392	21	4R
PTS & OTHER										
TOTAL (INCL PTS)	411	409	401	3	4R	407	398	392	28	4R
SALES PER EMPLOYEE (PRODUCTIVITY)										
RETAIL	10598	10862	10862	3	3B	11012	10999	10698	R	3R
FOOD	3326	3385	3271	2	2R	3175	3226	3093	1B	3R
SERVICES	11067	8808	7849	26	41R	10055	9271	8162	8B	23R
VENDING	89181	95008	89187	11	1B	73267	79438	68491	3B	7R
G & A	18775	23706	23323	22	21B	213809	233602	251499	8B	18B
DEPOT/WHSE										
ER/CO										
TOTAL (INCL PTS)	7232	7387	7306	2	1B	7456	7351	7085	1R	4R
AVERAGE WAGE COST PER EMPLOYEE										
RETAIL	1060	1025	1008	4	6R	988	1015	958	3B	3R
FOOD	1170	1117	1091	5	7R	1066	1097	1025	3B	4R
SERVICES	1349	1188	1209	13	12R	1162	1270	1133	9B	3R
VENDING	852	850	881	1	3B	810	838	733	3B	11R
G & A	1570	1719	1627	8	3B	1548	1698	1671	8B	7B
DEPOT/WHSE										
ER/CO										
TOTAL	1119	1078	1053	3	6R	1039	1073	1009	4B	3R
PTS & OTHER										
TOTAL (INCL PTS)	1119		1053		6R	1039		1009		3R

SECTION 2 — RETAIL GROSS PROFIT

	DESCRIPTION	CURRENT PERIOD	% OF SALES PURCH	YEAR TO DATE	% OF SALES PURCH	LY % OF SALES PURCH	
1	BASIC MARK ON	XX XXX XXX		XX XXX XXX			1
2	FREIGHT/PACKING						2
3	DIST. CENTER CASH DISCOUNTS						3
4	INITIAL MARK ON-CURRENT PERIOD	XX XXX XXX	2291	XX XXX XXX	2303	2263	4
5	INITIAL MARK ON-YEAR TO DATE	XX XXX XXX	2303	XX XXX XXX	2303	2263	5
6	MARKDOWNS AT COST	46324-	142	410024-	156	103	6
7	SALES DISCOUNTS-AT COST						7
8	SHORTAGES-AT COST	25105-	77	202066-	77	77	8
9	PRIOR PERIODS' YTD ADJUSTMENTS	20873-	64	XX XXX XXX	XX XX	XX XX	9
10	GROSS PROFIT BEFORE DISCOUNTS	658820-	2020	5433044-	2070	2093	10
11	EARNED DISCOUNTS	15284-	47	1485705-	57	57	11
12	GROSS PROFIT AFTER DISCOUNT	674205-	2067	5583614-	2127	2150	12
13	MARKDOWNS	RETAIL DECREASES AT SELL					13
14	CONTROLLABLE-SPOILED/DAMAGED	10872-	34	99170-	38	39	14
15	CONTROLLABLE-OTHER	28717-	88	148293-	56	38	15
16	DIRECTED	20497-	63	289251-	109	6	16
17	TOTAL MARKDOWNS-ACTUAL	60186-	185	536715-	203	133	17
18	TOTAL MARKDOWNS-PROGRAMMED	57382-	183	393254-	160	XX XX	18
19	SALES DISCOUNTS						19
20	SHORTAGES	32617-	100	262530-	100	100	20

SECTION 3 — ANALYSIS OF OTHER INCOME

DESCRIPTION	CURRENT PERIOD: THIS YEAR	% OF SALES	LAST YEAR	% OF SALES	YEAR TO DATE: THIS YEAR	% OF SALES	LAST YEAR	% OF SALES
AGENCY ACTIVITIES								
PROCUREMENT SALES								
FOR ROOMS								
GAIN OF FIXED ASSETS	2768-	7			2768-	1	1295	
CASTING ALLOWANCE								
OTHER	1410-	4	3496-	5	34883-	11	87967-	13
TOTAL OTHER INCOME	4178-	11	3496-	5	37452-	12	86671-	13

SECTION 4 — VARIATIONS IN PERSONNEL COSTS

CURRENT PERIOD: RETAIL	FOOD	SERVICES	VENDING	G & A	DEPOT	ER/CENTRAL OFFICE	TOTAL	INCREASE DECREASE DUE TO CHANGE IN:	YEAR TO DATE: RETAIL	FOOD	SERVICES	VENDING	G & A	DEPOT	ER/CENTRAL OFFICE	TOTAL
VARIATIONS COMPARED TO LAST YEAR																
21076	10839	14368		8133			18181	NO. OF EMPLOYEES	1381221	80450	494140		30	538230		1207531
18480	8451	2520	502	9870			29916	AVG WAGE COSTS	782881	231890	46900	12320	180000			976801
39556	9367	19180	510	1148			49097	TOTAL	2074101	191380	407790	12350	358230			2184331
VARIATIONS COMPARED TO FINANCIAL PROGRAM																
17287	13449	13188	7	8609			15360	NO. OF EMPLOYEES	1232131	390120	406970		1140	286110		774781
11080	3657	2800	4	2961			15466	AVG WAGE COSTS	739090	171120	172800	4480	146880			1269840
3377	312	15188	3	7643			30826	TOTAL	493091	521240	579770	5320	117231			495050

RECAPITULATION OF EXPENSES

SECTION 5

CURRENT PERIOD: THIS YEAR	% OF SALES	% VAR FROM FP	% VAR FROM LY	FINANCIAL PROGRAM	% OF SALES	LAST YEAR	% OF SALES	EXPENSE CATEGORY	YEAR TO DATE: THIS YEAR	% OF SALES	% VAR FROM FP	% VAR FROM LY	FINANCIAL PROGRAM	% OF SALES	LAST YEAR	% OF SALES
461326	1196	78	188	439500	1135	421219	1123	TOTAL PERSONNEL COSTS	3342299	1096	78	28	3391800	1135	3137055	1101
65331	226	358	358	63900	168	69042	176	TOTAL OTHER EXPENSES	654718	212	198	283	571000	192	509714	179
32478	89	18	18	32800	86	32109	86	TOTAL DEPRECIATION	267499	87	38	78	259000	87	249285	87
508139	1503	108	128	527200	1390	511367	1388	GRAND TOTAL ALL EXPENSES	4264505	1384	78	98	4221800	1418	3896055	1372

FORM 7600 22 (PREV EDITION OBSOLETE)

* 100% AND MORE   A ABOVE FP OR LY   B BELOW FP OR LY

EXHIBIT 3-13 ANALYSIS AND STATISTICS STATEMENT

ANALYSIS & STATISTICS STATEMENT PART 2 — U.S. EXCHANGE SERVICE

COMMAND NAME	NO	EXCHANGE NAME	NO	REGION NAME	NO	MONTH ENDING
			3722 8012		0001	

SECTION 1 — SALES BREAKDOWN

CURRENT PERIOD

This Year Direct	This Year Concession	This Year Total	Last Year Direct	Last Year Concession	Last Year Total	Activity
3261772	120238	3390010	3128201	18710	3144911	RETAIL
224473	475	225953	228998	3332	232330	FOOD
192205	551654	352623	158226	678414	874634	SERVICES
16036	90374	250139	178374	91678	270052	VENDING
3850815	772740	4635564	3731794	792135	4523929	TOTAL
83.24	16.76	100 %	82.45	17.55	100 %	% OF TOTAL

YEAR TO DATE

This Year Direct	This Year Concession	This Year Total	Last Year Direct	Last Year Concession	Last Year Total	Activity
26252055	184943	27093999	22904362	1119673	24163284	RETAIL
755719	9713	764433	731934	17236	749171	FOOD
600790	3979545	9580343	632497	4321857	9960354	SERVICES
172278	751886	921157	1099853	709517	1809370	VENDING
30787849	5586085	36373933	28503904	5174287	33678191	TOTAL
84.64	15.36	100 %	84.64	15.36	100 %	% OF TOTAL

SECTION 2 — OPERATING RESULTS AS PERCENTAGES OF SALES

CURRENT PERIOD

Activity	DOP This Year Direct	DOP This Year Conc	DOP Last Year Direct	DOP Last Year Conc	OC This Year Direct	OC This Year Conc	OC Last Year Direct	OC Last Year Conc	NE This Year Direct	NE This Year Conc	NE Last Year Direct	NE Last Year Conc
RETAIL	0857	1592	1048	1474	0092	0049	0287	0108	0775	1548	0761	1366
FOOD	1814	0500	2129	2398	0111	0048	0341	0108	1703	0452	1788	2290
SERVICES	*0725	2631	*0012	2571	0226	0049	0668	0108	*0951	2582	*0680	2463
VENDING	3617	3009	3886	3032	0090	0049	0256	0108	3527	2960	3630	2924
TOTAL	0961	2503	1194	2598	0100	0049	0309	0108	0861	2454	0889	2490

* INDICATES LOSS

YEAR TO DATE

Activity	DOP This Year Direct	DOP This Year Conc	DOP Last Year Direct	DOP Last Year Conc	OC This Year Direct	OC This Year Conc	OC Last Year Direct	OC Last Year Conc	NE This Year Direct	NE This Year Conc	NE Last Year Direct	NE Last Year Conc
RETAIL	1029	1589	1072	1455	0074	0044	0262	0118	0959	1541	0810	1337
FOOD	897	0811	2140	2390	0094	0043	0316	0117	1803	0768	1824	2273
SERVICES	*0255	2681	0239	2587	0181	0044	0569	0118	0074	2637	*0326	2469
VENDING	3360	2642	3885	2583	0084	0044	0293	0118	3476	2598	3592	2465
TOTAL	1134	2507	1198	2560	0081	0044	0284	0118	1053	2463	0914	2442

* INDICATES LOSS

SECTION 3 — NUMBER OF OVERTIME HOURS AND PERCENT OF REGULAR HOURS

	RETAIL	%	FOOD	%	SERVICES	%	VENDING	%	G & A	%	DEPOT	%	IR C O	%	TOTAL	%
CURRENT MONTH THIS YEAR	5	108	190	99	12	29									209	23
CURRENT MONTH LAST YEAR																
YEAR TO DATE THIS YEAR	157	104	427	48	39	113	7	28	54	22					680	13
YEAR TO DATE LAST YEAR	171	103	63	07	8	03			3	02					192	04

SECTION 4 — NUMBER OF SICK LEAVE HOURS AND PERCENT OF REGULAR HOURS

	RETAIL	%	FOOD	%	SERVICES	%	VENDING	%	G & A	%	DEPOT	%	IR C O	%	TOTAL	%
CURRENT MONTH THIS YEAR	756	263	292	198	62	151			295	647					2409	265
CURRENT MONTH LAST YEAR	129	272	207	207	58	159	24	898	203	932					1621	281
YEAR TO DATE THIS YEAR	1325	290	1674	187	387	149	46	187	706	290					14140	265
YEAR TO DATE LAST YEAR	1939	332	2518	290	772	248	89	492	959	548					19777	327

SECTION 5 — INVENTORIES

CURRENT PERIOD

This Year	Turns	% of Total	Financial Program	Turns	Last Year	Turns	% of Total	Description	
6806690	49	10000	6047000	52	5958671	58	10000	RETAIL MDSE STORE	AT SELL
	xx xx			xx xx		xx xx		RETAIL MDSE DEPOT/WHSE	SELL
	xx xx			xx xx		xx xx		RETAIL MDSE MIT	SELL
6806690	49	100 00	6047000	52	5958671	58	100 00	TOTAL RETAIL MERCHANDISE	SELL
1.97	xx xx	xx xx	1.90	xx xx	1.68	xx xx	xx xx	STOCK TO SALES RATIO	
	xx xx			xx xx		xx xx		RETAIL MERCHANDISE	AT COST
132327	xx xx		90000	xx xx	122165	xx xx		OTHER INVENTORIES	COST
	xx xx			xx xx		xx xx		PURCHASES IN TRANSIT	COST
		100 00					100 00	TOTAL INVENTORIES	AT COST

YEAR TO DATE AVERAGES

Description		This Year	Turns	% of Total	Financial Program	Turns	Last Year	Turns	% of Total
RETAIL MDSE STORE	AT SELL	9598893	468	9985	5288333	471	4732706	508	9979
RETAIL MDSE DEPOT/WHSE	SELL		xx xx			xx xx		xx xx	
RETAIL MDSE MIT	SELL	8397	xx xx	0015		xx xx	9846	xx xx	0021
TOTAL RETAIL MERCHANDISE	SELL	9607291	468	100 00	5288333	471	4742553	506	100 00
STOCK TO SALES RATIO			xx xx	xx xx		xx xx		xx xx	xx xx
RETAIL MERCHANDISE	AT COST		xx xx			xx xx		xx xx	
OTHER INVENTORIES	COST	123020	xx xx		99656	xx xx	109026	xx xx	
PURCHASES IN TRANSIT	COST		xx xx			xx xx		xx xx	
TOTAL INVENTORIES	AT COST			100 00					100 00

EXHIBIT 3-13 ANALYSIS AND STATISTICS STATEMENT

are given for the current period and year-to-date. The sales segment is further divided into merchandise, catalog desk, services, restaurant, and licensed department sales. The credit sales segment consists of memo entries for J. C. Penny credit card sales and bank credit card sales. The gross profit segment gives breakdowns on various types of markdowns, shrinkage, beginning inventory, purchases at retail, special markup adjustments, gross margin, merchandising charge, freight, and ending inventory at retail and cost. The operating expense segment is subdivided into salaries, payroll taxes, advertising and display, general expense, and interest. The other expense segment is divided into rent, plant and equipment, taxes, district and regional services, and corporate services.

The <u>Analysis of Operating Profit</u> gives a summary of sales, gross profit, salaries, operating expenses, and operating profit or loss for each of the following areas:

1. Merchandise departments
2. Catalog desk
3. Customer services departments
4. Restaurant
5. Licensed departments
6. Pre-opening / regional projects

The <u>Operating Summary by Periods</u> gives a summary of sales, store profit or loss, retail book inventory, average

cash on hand, fixture and equipment additions, and gross return on merchandise investment for each period of the year that is completed.

2. F. W. Woolworth Company

The F. W. Woolworth Company's operating statement, Exhibit 3-10, is made up of two 11 X 8 1/2 inch pages. The operating statement is divided into the following segments:

1. Total Sales Including License
2. Total Salary
3. Net Rent
4. Total Prorate
5. Total Advertising
6. Credit Expense
7. Total Electric
8. Wrap Supplies
9. Total Repairs
10. Total Maintenance
11. Total Community
12. Security
13. Total Display Material
14. Total Supplies
15. Total Services Purchased
16. Total Miscellaneous
17. Total Opening Expense
18. Total Other

19. Total Sundry

20. Total Store Expense

21. Estimate Store Profit

Most of these segments are further subdivided giving even more detail. For example sales is divided into merchandise sales, department 1340 sales (food service department), and licensee sales. Besides regular entries several memo entries concerning hours worked, salary, and department 1340 expenses are provided. Actual dollar amounts and percentages to sales for this year (abbreviated on F. W. Woolworth statements as C/S), percentage increase between this year and last year (abbreviated on statements as C/S incr.), and this year's actual dollar increase over last year's are given for the current period and year-to-date. Memo amounts are also given for various types of supply inventories and inventory increases.

3. Army and Air Force Exchange Service

The Army and Air Force Exchange Service has four main branch store operating reports. The Branch Operating Statement Exhibit 3-11, the Income and Expense Operating Statement Exhibit 3-12, and the Analysis and Statistics Statement Exhibit 3-13. The Branch Operating Statement is provided for the retail, food, services, and vending departments. The food service version of the Branch Operating Statement was discussed in the cost or non-retail department

section of this chapter. Because of its similarity to the retail and other branch statements further discussion is not necessary.

The Income and Expense Operating Statement is a one page comparative report prepared on 11 X 8 1/2 inch paper. It is split into five sections. The first four sections detail the retail, food, services, and vending department's sales per capita, net sales, gross profit, direct personnel costs, direct other expenses, depreciation, and direct operating profit. The final section summarizes the four sections above and details the general and administrative, depot and warehouse, exchange region, and headquarters personnel costs and other expenses, concession income, other income, and average military strength. Dollar amounts and percentages to sales are provided for actual this year, last year, and plan as well as a percentage variance from plan and last year for the current period and year-to-date.

The Analysis and Statistics Statement is a two page, two part report prepared on 11 X 8 1/2 inch paper. Each part is split into five sections as delineated below:

a. Part one, section one gives the following employee statistics:

1. Computed average number of employees

2. Sales per employee (productivity)

3. Average wage cost per employee

b. Part one, section two is an analysis of gross profit.

c. Part one, section three is an analysis of other income.

d. Part one, section four is a personnel cost variation report.

e. Part one, section five is a recapitulation of expenses.

f. Part two, section one is a direct versus concession sales breakdown.

g. Part two, section two gives operating results as a percentage of sales.

h. Part two, section three gives the number of overtime hours and the related percentage to regular hours.

i. Part two, section four gives the number of sick leave hours and the related percentage to regular hours.

j. Part two, section five gives inventory statistics.

F. EXECUTIVE LEVEL REPORTS

Executive level reports vary in style. In this area reports were received from J. C. Penny Company, F. W. Woolworth Company, May Department Stores Company, Carter Hawley Hale Stores, Inc., and Army and Air Force Exchange Service.

1. J. C. Penny Company

The J. C. Penny Company furnished two reports, the J. C. Penny Stores, Exhibit 3-14, and the J. C. Penny Stores Operating Statistics, Exhibit 3-15, which it provides to executive level management.

The J. C. Penny Stores report is a condensed income statement similar to that shown in chapter II. The only

JCPENNEY STORES
(AMOUNTS IN MILLIONS)

	OCTOBER			YEAR TO DATE		
	1982		1981	1982		1981
	ACTUAL	BUDGET	ACTUAL	ACTUAL	BUDGET	ACTUAL
SALES						
MERCHANDISE	.	.	.	.	.	.
CATALOG DESKS	.	.	.	.	.	.
SERVICES, RESTAURANTS, LICENSED DEPTS.	.	.	.	.	.	.
TOTAL SALES (1,660 VS. 1,678)	.	.	.	.	.	.
% BETTER (WORSE) LAST YEAR	.%	.%	.%	.%	.%	.%
COMPARATIVE STORES %	.%		.%	.%		.%
GROSS PROFIT						
MERCHANDISE	.	.	.	.	.	.
% TO MERCHANDISE SALES	.%	.%	.%	.%	.%	.%
TOTAL	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
OPERATING EXPENSE	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
OPERATING PROFIT	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
FACILITY AND SUPPORT EXPENSE	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
SE PROFIT	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
ACCRUALS	.	.	.	.	.	.
ADJUSTED STORE PROFIT	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
% BETTER (WORSE) LAST YEAR	.%	.%	.%	.%	.%	.%

INVENTORY AT RETAIL	THIS YEAR			LAST YEAR		
		OVER (UNDER) ALLOWANCE			OVER (UNDER) ALLOWANCE	
	$	$	%	$	$	%
BEGINNING OF PERIOD - ADJUSTED			.%			.%
END OF PERIOD - PRELIMINARY EARNED			.%			.%

EXHIBIT 3-14 JCPENNY STORES

JCPENNEY STORES OPERATING STATISTICS
(AMOUNTS IN MILLIONS)

	OCTOBER					
	1982		1981			
	ACTUAL	BUDGET	ACTUAL	% TO MDSE. SALES		
MERCHANDISE RELATED						
FOR THE MONTH						
PURCHASES AT RETAIL	.	.	.			
MARKUP % ON PURCHASES	.%	.%	.%			
FREIGHT % - PURCHASES AT RETAIL	.%	.%	.%			
MARKDOWNS						
STORE MARKDOWNS	.	.	.	.%	.%	.%
PRICE BREAKS	.	.	.	.%	.%	.%
PRICE REDUCTIONS	.	.	.	.%	.%	.%
ASSOCIATES DISCOUNT	.	.	.	.%	.%	.%
SPECIAL M/U ADJUSTMENTS	.	.	.	.%	.%	.9%
TOTAL MARKDOWNS	.	.	.	.%	.%	.%
YEAR TO DATE						
PURCHASES AT RETAIL	.	.	.			
MARKUP % ON PURCHASES	.%	.%	.%			
ADDITIONAL MARKUP	.		.			
EFFECT ON MARKUP %	.%		.%			
FREIGHT % - PURCHASES AT RETAIL	.%	.%	.%			
MARKDOWNS				% TO MDSE. SALES		
STORE MARKDOWNS	.	.	.	.%	.%	.%
PRICE BREAKS	.	.	.	.%	.%	.%
PRICE REDUCTIONS	.	.	.	.%	.%	.%
ASSOCIATES DISCOUNT	.	.	.	.%	.%	.%
SPECIAL M/U ADJUSTMENTS	.	.	.	.%	.%	.%
TOTAL MARKDOWNS	.	.	.	.%	.%	.%

	OCTOBER			YEAR TO DATE		
	1982		1981	1982		1981
	ACTUAL	BUDGET	ACTUAL	ACTUAL	BUDGET	ACTUAL
OPERATING EXPENSE						
SALARIES	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
PAYROLL TAXES	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
ADVERTISING	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
DISPLAY	.	.	.	.	.	.
GENERAL EXPENSE	.	.	.	.	.	.
INTEREST	.	.	.	.	.	.
TOTAL OPERATING EXPENSE	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
FACILITY AND SUPPORT EXPENSE						
OCCUPANCY	.	.	.	.	.	.
PLANT AND EQUIPMENT	.	.	.	.	.	.
TAXES	.	.	.	.	.	.
DISTRICT AND REGIONAL SERVICES	.	.	.	.	.	.
CORPORATE SERVICES	.	.	.	.	.	.
TOTAL FACILITY AND SUPPORT EXPENSE	.	.	.	.	.	.
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%

EXHIBIT 3-15 JCPENNEY STORES OPERATING STATISTICS

major differences are the lack of a variance column and the addition of memo inventory figures, though, there are some minor changes in title names and presentation.

The J. C. Penny Stores Operating Statistics summarizes merchandise and expense statistics. The report provides merchandise related purchases, markups, markdowns, and freight as well as operating, facility, and support expenses for the current period and year-to-date. Figures are provided for this year, budget, and last year.

2. F. W. Woolworth Company

The F. W. Woolworth Company provides a Retail Operations Summary, Exhibit 3-16, in addition to an aggregated operating statement identical in format to Exhibit 3-10. The Retail Operations Summary, a yearly report, is a five year comparison of sales, gross profit, merchandising, expense, and square footage statistics. Dollar amounts and percentages to sales or percentage gain per square foot are given. This report also lists the name of the manager responsible for the store during the most current period.

3. May Department Stores Company

The May Department Stores Company furnished a combined earnings report Exhibit 3-17 which is similar to the condensed income statement in chapter II, but in a different format. This report provides, in separate sections, net sales, earnings after interest and before

	1977	1978	1979	1980	1981	GAIN
SALES MDSE.						
% GAIN						
PER SQ. FT.						
SALES 340						
% GAIN						
PER SQ. FT.						
SALES OWNED						
% GAIN						
PER SQ. FT.						
SALES LICENSEE						
% GAIN						
PER SQ. FT.						
SALES TOTAL						
% GAIN						
PER SQ. FT.						
BOOK-GROSS-W/O 340						
ACTUAL GROSS MDSE.						
ACTUAL GROSS 340						
ACTUAL GROSS W/340						
SHRINKAGE						
SHRINKAGE %						
NET X-[illegible] % TO S.V.G.S.						
NET M.D. % TO S V.G.S.						
[illegible] COST TO [illegible]						
MDSE. INV. SELL						
% OVER NORMAL						
CTR. INV. LIN. FT./SQ. FT.*						
TURNOVER						
% INV. (COST) TO MDSE. SALES						
INVESTMENT						
MDSE. INV. (COST) INCL. 340						
EXPENSE INV.						
NET ALTERATIONS						
NET FIXTURES/EQUIPMENT						
ACCESSORIES						
TOTAL INVESTMENT						
TOTAL EXPENSE						
C.S						
TOTAL PROFIT						
% PROFIT						
% RETURN ON INVESTMENT						
ASSOC/DIV./ASST. GEN. MGR.						
MANAGER/GENERAL MANAGER						
[illegible]						

R.O. SUSN.
PO

STORE COUNT

DATE OPENED

LEASE EXPIRES

TOT. SQ. FT. BLDG.

SQ. FT. SALES AREA

MDSE.

340

OWNED

LIC

TOTAL

LIN. FT. W/O 340
(WOOLWORTH ONLY)

EXHIBIT 3-16 RETAIL OPERATIONS SUMMARY

	1977	1978	1979	1980	1981	GAIN
EXPENSES: *						
LEASE RENT						
ADJ. L/H OFFSET RE TAX & INS.						
SETTLEMENT CREDIT						
BLDG. EXPENSE						
SUB-TOT. BEFORE LIC. INC.						
LIC. INCOME (RENT) **						
NET RENT						
C/S						
MDSE. SALARIES						
C/S (MDSE. SALES)						
DEPT. 340 SALARIES						
C/S (340 SALES)						
TOTAL SALARIES						
C/S						
INSURANCE PRORATE						
C/S						
ADMIN PRORATE						
C/S						
TAX & DEPR. PRORATE						
C/S						
TOTAL PRORATE						
C/S						
ADVERTISING (NET)						
C/S						
NET CREDIT EXPENSE						
C/S						
ELECTRICITY						
C/S						
WRAP SUPPLIES						
C/S						
SUNDRIES-MAJOR CATEGORIES						
REPAIRS						
C/S						
MAIN. MATL.						
C/S						
MAINT. CONTRACTS						
C/S						
COMMUNICATIONS						
C/S						
SECURITY						
C/S						
OTHER EXPENSES						
C/S						
TOTAL SUNDRIES						
C/S						
TOTAL STORE EXPENSE						
C/S						

R.O. COMM.
PO

STORE COUNT

* EXPENSES COST TO SELL BASED ON OWNED SALES EXCEPT WHERE OTHERWISE INDICATED

** INCLUDES INCOME FROM CONCESSIONS AND LICENSEES IN WOOLWORTH STORES

MEMO ONLY:
OPENING EXPENSE

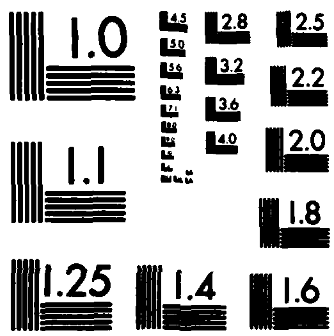
1977
1978
1979
1980
1981

D011 PAGE 2

EXHIBIT 3-16 RETAIL OPERATIONS SUMMARY

AD-A142 856 AN EVALUATION OF THE NAVY RESALE SYSTEM'S OPERATING AND 2/2
FINANCIAL STATEMENTS(U) NAVAL POSTGRADUATE SCHOOL
MONTEREY CA M S BARNETT MAR 84

UNCLASSIFIED F/G 5/1 NL



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

THE MAY DE   TMENT STORES COMPANY

EARNINGS—STORE COMPANIES

222

Period

	NET SALES						EARNINGS AFTER INTEREST AND BEFORE TAXES							FLOW THROUGH		ROMA		
	ACTUAL	CHANGE FROM LY			B/(W) THAN PLAN		ACTUAL	CHANGE FROM LY		B/(W) THAN PLAN		% OF SALES						
	$	$	%	S/S%	$	%	$	$	%	$	%	TY	LY	LY	PLAN	TY	LY	PL
L																		
W/B																		
S																		
P																		
C																		
B																		
H																		
A																		
B																		
Y																		
J																		
D/S																		
V																		
VS																		
R																		
TOT																		

	GROSS MARGIN						OPERATING EXPENSE							INTEREST EXPENSE				OTHER INCOME				
	ACTUAL		B/(W) THAN LY		B/(W) THAN PLAN		ACTUAL		B/(W) THAN LY		B/(W) THAN PL		CHG	ACTUAL		$ B/(W) THAN		ACTUAL		$ B/(W) THAN		
	$	%	$	%	$	%	$	%	$	%	$	%	VS LY	$	%	LY	PL	$	%	LY	PL	
L																						L
W/B																						W/B
S																						S
P																						P
C																						C
B																						B
H																						H
A																						A
B																						B
Y																						Y
J																						J
D/S																						D/S
V																						V
VS																						VS
R																						R
TOT																						TOT

EXHIBIT 3-17 EARNINGS--STORE COMPANIES

taxes, flow through, return on net assets, gross margin, operating expense interest expense and other income for each of its department store companies.

The net sales section provides actual dollars this year, the difference in dollars between this year and last year, the percentage of change to this years sales, the percentage of change to this years sales on a store for store basis i.e. excludes new store openings, and a dollar amount and percentage to sales better or worse than plan.

The earnings after interest and before taxes section provides the actual dollars this year, the difference in dollars and as a percentage between this year and last year, a dollar amount and percentage to sales better or worse than plan, and a percentage of sales for this year and last year.

The gross margin and operating expense sections give actual this year, better or worse than last year and better or worse than plan in dollars and as a percentage. In addition the operating expense section has a column for the change in operating expenses versus last year.

The interest expense and other income sections give actual this year in dollars and as a percentage to sales as well as dollars better or worse than last year and plan.

"Flow through," the increase in profit due to increased sales has columns for last year and plan, while return on net assets has columns for this year, last year, and plan.

4. Carter Hawley Hale Stores, Inc.

Carter Hawley Hale Stores, Inc. provided an Operating Results, and a Balance Sheet report.

The Operating Results report, Exhibit 3-18, is again similar to the condensed income statement in chapter II. However, like the J. C. Penny Company report, there is no column for variances. Additionally, there are two statistics added: average assets employed and return on assets for the year-to-date.

The Balance Sheet Exhibit 3-19 is a detailed accounting of the company position in its various asset, liability and capital accounts. Dollar amounts, rounded to the nearest thousand, are given for this year, plan, and last year.

5. Army and Air Force Exchange Service

Army and Air Force Exchange Service reports for executive level personnel are identical in format to those received at each of their branch stores, and therefore, need no further review. Each store's operating statement is available to all levels of management. However, each higher level of management receives reports which aggregate all branch stores within the purview of that level of management. At the headquarters level aggregate reports are available for Europe, Pacific, overseas combined, continental United States, and total AAFES.

SCHEDULE CHH-14

COMPANY
DATE

CARTER HAWLEY HALE STORES, INC.

OPERATING RESULTS

($000)

	MONTH						YEAR TO DATE					
	This Year		Plan		Last Year		This Year		Plan		Last Year	
	$	%	$	%	$	%	$	%	$	%	$	%
SALES 1 Retail												
2 Cost												
3 Leased												
4 TOTAL												
5 Finance Charges												
6 TOTAL												
GROSS MARGIN 7 Retail												
8 Cost												
9 Leased												
10 TOTAL												
EXPENSE 11 Payroll												
12 Non-Payroll												
13 TOTAL												
14 Other Income												
OPERATING 15 PROFIT												
16 Pre Opening Expense												
17 Real Estate Cost												
Interest, Benefits & 18 Corp. Admin.												
PRE TAX 19 EARNINGS												
FEDERAL STATE 20 INCOME TAX												
21 NET EARNINGS												
22 Average Assets Employed and Asset Turnover												
23 RETURN ON ASSETS												

Date ________________ Prepared by ______________________________

Date ________________ Prepared by ______________________________

EXHIBIT 3-18 OPERATING RESULTS

DIVISION
SCHEDULE A

Carter Hawley Hale Stores, Inc.

BALANCE SHEET
In Thousands

LINE NO		DIVISION		DATE
		THIS YEAR	PLAN	LAST YEAR
1	Cash on hand			
2	Cash in banks			
3	Temporary investments			
4	Accounts receivable			
5	C.O.D. and miscellaneous receivable			
6	Less Allowance for doubtful accounts	( )	( )	( )
7	Merchandise inventories			
8	Operating supplies, prepaid taxes insurance, etc.			
9	Total Current Assets			
10	Accounts payable			
11	Accrued salaries, general taxes, etc.			
12	Total Current Liabilities			
13	**Working Capital**			
14	Fixtures and equipment			
15	Less: Accumulated depreciation fixtures and equipment	( )	( )	( )
16	Total Fixtures and Equipment			
17	Other assets			
18	Other long term liabilities			
19	**Basis for Interest, Benefits and Corporate Allocation**			
20	Net capital lease costs from Corporate			
21	Land			
22	Buildings and land improvements			
`	Lease improvements			
24	Less. Accumulated depreciation buildings and lease improvements	( )	( )	( )
25	Total Real Property			
26	**Net Assets Employed**			
27	Construction in progress			
28	**Total Net Assets (Must equal line 41)**			
	ANALYSIS OF DIVISIONAL INVESTMENT			
29	Divisional investment (From prior year line 39)			
30	Current year net earnings			
31	Income taxes			
32	Capitalized interest			
33	Interest, benefits and Corporate (IBC)			
34	Advances (repayments) from Corporate			
35	Cash transfers from (to) Corporate			
36	Actual real estate expenses to Corporate	( )	( )	( )
37	Allocated real estate expenses from Corporate			
38	Other			
39	Balance at end of period			
40	Net capital lease costs from Corporate			
41	Divisional investment including net capital lease costs			

Average Basis for Interest, Benefits and Corporate Allocation (YTD)			
'age Net Assets Employed (YTD)			

Date ____________ Prepared By ______________________ Date ____________ Approved By ______________________

6/80

EXHIBIT 3-19 BALANCE SHEET

IV. NAVY EXCHANGE FINANCIAL OPERATING STATEMENTS

A. INTRODUCTION

This chapter discusses the financial operating statements used by the various levels of management of the Navy Resale System to properly manage the local sales activities. This chapter is divided into five main sections, retail merchandise reports, cost or non-retail merchandise reports, expense reports, branch store reports, and executive level reports.

The reports discussed below, which are provided to all levels of management throughout the Navy Resale System are identical in format. The only difference in the reports received by successively higher levels of management is the level of aggregation. The following is a list of aggregation levels from highest to lowest:

* Worldwide - Aggregation of all exchanges worldwide and is provided to headquarters level executives
* CONUS - Aggregation of all continental United States exchanges and is provided to headquarters level executives
* Overseas - Aggregation of all overseas exchanges and is provided to headquarters level executives
* Region - Aggregation of exchanges within a region and is provided to regional level executives

* Exchange Complex - Aggregation of the main exchange and each branch exchange under an individual exchange and is provided to executives at each main Exchange with branches
* Exchange - A single exchange report provided to executives at each main Exchange
* Branch - A single branch exchange report and is provided to executives at each main and branch exchange

B. RETAIL MERCHANDISE REPORTS

The Navy Resale System provides one major merchandise report titled <u>Retail Departmental Operations</u>, which is shown in Exhibit 4-1. This report gives details of each department used by a particular activity or its subactivities. For each department three major groupings of figures are provided on this report retail inventory, sales, and gross profit. Figures are provided for the budget, actual, and actual last year. All figures are rounded to the nearest dollar. The retail inventory group includes the dollar amount at the beginning of month and end of month (EOM) for the retail inventory as well as computed percentages for the months actual EOM inventory as a percentage of budget and last year.

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
RETAIL DEPARTMENTAL OPERATIONS

SC03

DEPARTMENT		RETAIL INVENTORY BOM	RETAIL INVENTORY EOM	TY ACT AS % OF BUDGET	SALES THIS MONTH	TY ACT AS % OF BUDGET	SALES YEAR TO DATE	TY ACT AS % OF BUDGET	GROSS PROFIT THIS MONTH	% OF SLS	GROSS PROFIT YEAR TO DATE	% OF SLS	INITIAL MARKON % YTD	MARKDOWNS % TO SALES MO	MARKDOWNS % TO SALES YTD	PROV FOR INV SHRINK % TO SALES MO	PROV FOR INV SHRINK % TO SALES YTD
	BUD																
	ACT																
	ACT LY																
	BUD																
	ACT																
	ACT LY																
	BUD																
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EXHIBIT 4-1 RETAIL DEPARTMENTAL OPERATIONS

The sales group lists the month and year-to-date sales and percentages similar to those above only with the substitution of monthly and year-to-date sales for EOM inventory.

The gross profit group records the month and year-to-date dollar gross profit along with corresponding percentages to sales, the initial markon percentage year-to-date, markdowns as a percentage to sales for the month and year-to-date, and provision for inventory shrinkage as a percentage to sales for the month and year-to-date.

C. COST OR NON-RETAIL MERCHANDISE REPORTS

There are two main reports produced by the Navy Resale System which provide financial management information in regards to cost or non-retail merchandising activities. These reports are titled Service Departmental Operations and Service Department Employee Benefits and Other Direct Expense. Examples of these reports are provided in Exhibits 4-2 and 4-3.

1. Service Departmental Operations Report

This report gives details of each cost or non-retail department used by a particular activity or its subactivities. The report gives dollar amounts for beginning-of-month (BOM) and end-of-month (EOM) inventory at cost, sales, gross profit, payroll, employee benefits, other direct expense, equipment depreciation, net departmental contribution, number of employee equivalent man months, and average

FORM SC05 REVISED 8/82

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
SERVICE DEPARTMENTAL OPERATIONS

SC05 FOR EXCHANGE NO. PERIOD ENDING SC05

DEPT	INVENTORY AT COST		SALES	GROSS PROFIT		PAYROLL		EMPLOYEE BENEFITS		OTHER DIRECT EXP		EQUIP DEPRECIATION		NET DEPT CONTRIB		NO. OF EMPS EQUIV MAN MO	AVG $ SALES PER MAN MO
	BOM	EOM	AMOUNT	AMOUNT	% TO NS	AMOUNT	% TO NS	AMOUNT	% TO NS	AMOUNT	% TO NS	AMOUNT	% TO NS	AMOUNT	% TO NS		

EXHIBIT 4-2 SERVICE DEPARTMENTAL OPERATIONS

FORM SC06 REVISED 8/82

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION

SC06 SERVICE DEPT EMPL BENEFITS-OTHER DIR EXP FOR

EXCHANGE NO.
PERIOD ENDING

SC06

DEPARTMENT		ACC 312 PROVISION FOR ANNUAL LEAVE	ACC 314 EMPL BEN LOCAL NATL	ACC 316 TAXES FICA	ACC 318 RETIREMENT ANNUITY CONT	TOTAL EMPLOYEE BENEFITS	ACC 310 AREA SUPPORT ALLOCATION	ACC 313 STATIONERY & SUPPLIES	ACC 315 REPAIRS & MINOR REPLACE	ACC 317 UTILITY EXPENSE	ACC 319 MISCELLANEOUS EXPENSE	TOTAL OTHER DIRECT EXPENSE
	BUDGET											
	ACTUAL											
	ACTUAL LY											
	BUD YTD											
	ACT YTD											
	LY YTD											
	BUDGET											
	ACTUAL											
	ACTUAL LY											
	BUD YTD											
	ACT YTD											
	LY YTD											
	BUDGET											
	ACTUAL											
	ACTUAL LY											
	BUD YTD											
	ACT YTD											
	LY YTD											
	BUDGET											
	ACTUAL											
	ACTUAL LY											
	BUD YTD											
	ACT YTD											
	LY YTD											
	BUDGET											
	ACTUAL											
	ACTUAL LY											
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	LY YTD											
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	ACT YTD											
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	ACTUAL											
	ACTUAL LY											
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	LY YTD											
	BUDGET											
	ACTUAL											
	ACTUAL LY											
	BUD YTD											
	ACT YTD											
	LY YTD											
	BUDGET											
	ACTUAL											
	ACTUAL LY											
	BUD YTD											
	ACT YTD											
	LY YTD											

EXHIBIT 4-3 SERVICE DEPARTMENT EMPLOYEE BENEFITS & OTHER DIRECT EXPENSE

dollar sales per man month. For each of these items, except the inventory figures, dollar amounts are given for budget, actual, last year, budget year-to-date, actual year-to-date, and last year year-to-date. Only budget, actual, and last year dollar amounts are provided for the BOM and EOM inventory figures. In addition gross profit, payroll, employee benefits, other direct expenses, equipment depreciation, and net departmental contribution are computed as a percentage of sales. All dollar amounts are rounded to the nearest dollar and all percentages to the nearest tenth.

Most of the terms listed above are commonly used. However, number of employee equivalent man months and average dollar sales per man month need further explanation.

a. Number of Employee Equivalent Man Months

The number of employee equivalent man months is used by management to determine the average dollar sales per man month at the completion of a month. It is computed by dividing total hours worked by 173.3.

b. Average Dollar Sales per Man Month

At the completion of a month, average dollar sales per man month is computed by dividing sales by the number of employee equivalent man months. This statistic is the key element used in budgeting direct selling payroll for the next year.

Budgeted direct selling payroll is computed in the following manner:

1. Budgeted dollar sales is divided by the budgeted dollar sales per man month to give the budgeted equivalent man months. The budgeted dollar sales per man month is last years average dollar sales per man month adjusted based on management's forecast of the future sales and inflation.

2. Budgeted equivalent man months multiplied by budgeted average wage rate gives budgeted dollar direct selling payroll. The budgeted average wage rate is the median wage rate of the department during the last three months for which actual results are available, increased by a factor for inflationary wage increases and merit increases. [Ref. 8: pp. 7-10]

2. Service Department Employee Benefits and Other Direct Expense Report

This report gives a more detailed breakdown of the employee benefits and other direct expense information than the Service Departmental Operations Report. The following eleven items of information are provided by department: Provision for annual leave, employee benefits-local national, taxes-FICA, retirement annuity contribution, total employees benefits, area support allocation (allocation of regional expenses to the department), stationery and supplies, repairs and minor replacements, utility expense, miscellaneous expense, and total other direct expense.

D. EXPENSE REPORTS

The Navy Resale System has no separate expense reports as discussed in the second chapter of this thesis. All reports concerned with expenses are included in the branch store reports, and are examined in the following section.

E. BRANCH STORE REPORTS

All Navy Exchange store financial operating reports are similar in format. The reports are provided on 11 by 8 1/2 inch paper with current month figures on the left-hand side and year-to-date figures on the right-hand side separated by a column with a description of the item and its corresponding account number. Under both the current and the year-to-date headings, columns are provided for budgeted dollars, actual this year dollars, and actual last year dollars, as well as adjacent columns for percent to sales. In addition, columns are provided for percent variance to budget and percent variance to last year. All dollar amounts are rounded to the nearest dollar and all percentages to the nearest tenth. The branch reports are normally received one to two months after completion of an accounting month.

Each main and branch exchange receives the following financial operating reports from the Navy Resale and Services Support Office on a monthly basis:

1. Retail Operations

The Retail Operations report, Exhibit 4-4, is divided into five sections. The first section provides a summary of sales, provision for inventory shortage, cost of sales, total cost of sales, and gross profit which are extracted from the Retail Departmental Operations report. The second section of the Retail Operations report provides a breakdown of receiving and shipping, direct selling, and

FORM SC02 REVISED 8/82

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
RETAIL OPERATIONS

SC02 FOR EXCHANGE NO. PERIOD ENDING SC02

CURRENT MONTH										YEAR TO DATE							
BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO S/S	ACCT NO	DESCRIPTION	BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO S/S
									RETAIL								
								302	SALES								
								308	PROV FOR INV SHRINKAGE								
								309	COST OF SALES								
									TOTAL COST OF SALES								
									GROSS PROFIT								
								311xx	REC & SHIP PAYROLL								
								VAR	R&S EMPL BENEFITS & FICA								
								311xx	DIRECT SELLING PAYROLL								
								VAR	DS EMPL BENEFITS & FICA								
								311xx	PROCUREMENT PAYROLL								
								VAR	PROC EMPL BENEFITS & FICA								
									TOTAL PERSONNEL COST								
								310	AREA SUPPORT ALLOCATION								
								313	STATIONERY & SUPPLIES								
								315	REPAIRS & MINOR REPLACE.								
								317	UTILITY EXPENSE								
								319	MISC DIRECT EXPENSE								
									TOTAL OTHER DIR EXPENSE								
								305	EQUIPMENT DEPRECIATION								
									TOTAL DIRECT EXPENSE								
									RETAIL NET CONTRIBUTION								
								[illegible]	REC & SHIP MAN								
									R&S $ SALES EQUIV M-MO								
								118	DIRECT SELLING MAN								
									DS $ SALES EQUIV M-MO								
								119	PROC EMPL EQUIV M-MO								
									PROC PAY $ BEFORE ALLOC								

EXHIBIT 4-4 RETAIL OPERATIONS

procurement payroll and related benefits, as well as, an aggregation of total personnel costs. The third section provides other direct expense broken down into the following accounts:

* 310 Area Support Allocations -- are the directly related merchandise expenses pro-rated to each exchange by the exchanges regional office.
* 313 Stationery and Supplies
* 315 Repairs and Minor Replacements
* 317 Utility Expense
* 319 Miscellaneous Expense
* 305 Equipment Depreciation

Besides the above breakdown of expense, a subtotal of other direct expense before equipment depreciation and a total of other direct expense after equipment depreciation is provided. The fourth section provides the total retail net contribution. The final section provides employee equivalent man months and average dollar sales per equivalent man month for the receiving and shipping, and the direct selling departments, as well as the employee equivalent man months and the procurement payroll dollars before allocation for the procurement department.

2. Service Operations

The Service Operations report, Exhibit 4-5, provides a summation of all service department operations from the Service Departmental Operations report. It includes sales,

FORM SC04 REVISED 8/82

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
SERVICE OPERATIONS

SC04 FOR EXCHANGE NO. PERIOD ENDING SC04

CURRENT MONTH										YEAR TO DATE							
BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO S/S	ACCT NO	DESCRIPTION	BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO S/S
									SERVICE								
								302	SALES								
								309	COST OF SALES								
									GROSS PROFIT								
								311	PAYROLL ALL DEPTS								
								VAR	ALL EMPL BENEFITS & FICA								
									TOTAL PERSONNEL COST								
								310	AREA SUPPORT ALLOCATION								
								313	STATIONERY & SUPPLIES								
								315	REPAIRS & MINOR REPLACE								
								317	UTILITY EXPENSE								
								319	MISC DIRECT EXPENSE								
									TOTAL OTHER DIR EXPENSE								
								305	EQUIPMENT DEPRECIATION								
									TOTAL DIRECT EXPENSE								
									SERVICE NET CONTRIBUTION								

EXHIBIT 4-5 SERVICE OPERATIONS

cost of sales, gross profit, payroll and benefits, other direct expenses broken-down in the same manner as the Retail Operations report, total direct expense, and service net contribution.

3. General Expense Payroll

The General Expense Payroll report, Exhibit 4-6 is a breakdown of all general expense departments payroll and benefits, as well as, the related employee equivalent man months and payroll dollars before allocation. The following is a list of those departments broken out:

* 321-11 General staff
* 321-21 Accounting
* 321-31 Data processing
* 321-41 Visual merchandise
* 321-52 Security
* 321-57 Cleaning
* 321-58 Maintenance
* 321-61 Personnel
* 321-70/77 Warehouse

4. General Expense

The General Expense report, Exhibit 4-7, is a breakdown of all general expense and other income. The report is broken down into sections for various general expenses, miscellaneous general expense, central office expense, centrally funded exchange expense, and other income..

FORM SC07 REVISED 2/83

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVAL EXCHANGE DIVISION
GENERAL EXPENSE PAYROLL

SC07 FOR EXCHANGE NO. PERIOD ENDING SC07

CURRENT MONTH										YEAR TO DATE							
BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO SLS	ACCT NO	DESCRIPTION	BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO SLS
								[illegible]	GENERAL STAFF PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	ACCOUNTING PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	DATA PROCESSING PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	VISUAL MDSE PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	SECURITY PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	CLEANING PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	MAINTENANCE PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	PERSONNEL PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
								[illegible]	WAREHOUSE PAYROLL								
								[illegible]	EMPL BENEFITS & FICA								
									TOTAL PERSONNEL COSTS								
									PAYROLL [illegible]								
								[illegible]	GENERAL STAFF PAYROLL								
									MAN MONTHS								
								[illegible]	ACCOUNTING PAYROLL								
									MAN MONTHS								
								[illegible]	DATA PROCESSING PAYROLL								
									MAN MONTHS								
								[illegible]	VISUAL MDSE PAYROLL								
									MAN MONTHS								
								[illegible]	SECURITY PAYROLL								
									MAN MONTHS								
								[illegible]	CLEANING PAYROLL								
									MAN MONTHS								
								[illegible]	MAINTENANCE PAYROLL								
									MAN MONTHS								
								[illegible]	PERSONNEL PAYROLL								
									MAN MONTHS								
								[illegible]	WAREHOUSE PAYROLL								
									MAN MONTHS								

EXHIBIT 4-6 GENERAL EXPENSE PAYROLL

FORM SC08 REVISED 8/84

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
GENERAL EXPENSE

SC08 ______ FOR ______ EXCHANGE NO ______ PERIOD ENDING ______ SC08

CURRENT MONTH										YEAR TO DATE								
BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO S/S	ACCT NO	DESCRIPTION	BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO S/S	
								[illegible]	AREA SUPPORT ALLOCATION									
								[illegible]	STATIONERY & SUPPLIES									
								[illegible]	REPAIRS REPLACE & ALT									
								[illegible]	AUTO EXP (MISC)									
								[illegible]	UTILITY EXPENSE									
								[illegible]	FREIGHT & EXPRESS									
								[illegible]	CASH SHORT & OVER									
								[illegible]	TRAVEL EXPENSE									
								[illegible]	TELEPHONE TELEGRAPH & POST									
								[illegible]	MAINT CONTRAC LABOR CHRG									
								[illegible]	DEPRECIATION EQUIPMENT									
								[illegible]	DEPRECIATION BLDG IMPRV									
								[illegible]	DEPRECIATION BLDG									
									TOTAL VARIOUS GEN EXPS									
								[illegible]	MISCELLANEOUS EXPENSE									
								[illegible]	UNCOLLECTED INTRN CKS									
								[illegible]	LOCAL BANK SERV CHGS									
								[illegible]	MDSE SHORT DMGE IN TRNS									
								[illegible]	CONVERSION DIFFERENTIAL									
								[illegible]	UNCOLLECTED RECEIVABLES									
								[illegible]	EQUIPMENT RENTALS									
								[illegible]	OVERAGES MDSE INTRANS PU									
								[illegible]	MAINT LABOR CHRG									
								[illegible]	TRAINING & DEVELOPMENT									
								[illegible]	CUSTODIAL LABOR NO CREW									
								[illegible]	RGS EXPENSE CREDIT									
								[illegible]	LSO REAL EXP CLR ACCT									
								[illegible]	PROV BD DEBTS DEFRED PAY									
								[illegible]	EXCH DIST COSTS TRANSF									
								[illegible]	CONSOL PROCR OFF SURCHG									
								[illegible]	RELOCATION EXP									
								[illegible]	MISC EXP DATA PROCESS									
								[illegible]	EQUIP RENTAL DATA PROC									
									TOTAL MISC GENERAL EXP									
								[illegible]	CENTRAL OFFICE EXP NET									

EXHIBIT 4-7 GENERAL EXPENSE

FORM SC09 REVISED 8-82

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
GENERAL EXPENSE (CONTINUED)

SC09 FUN EXCHANGE NO. PERIOD ENDING SC09

CURRENT MONTH										YEAR TO DATE							
BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO SLS	ACCT NO	DESCRIPTION	BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO SLS
								[illegible]	WORKERS COMP & PUBL LIAB								
								[illegible]	SELF INSURANCE								
								[illegible]	GROUP INSURANCE MED								
								[illegible]	GROUP INSURANCE LIFE								
								[illegible]	STATIONERY & SUPPLIES								
								[illegible]	MGMT TRAINEE PROGRAM								
								[illegible]	EXEC MGMT PROGRAM								
								[illegible]	MISCELLANEOUS								
									TOT CENT FUND EXCH EXP								
									TOTAL EXCH GEN EXP								
								[illegible]	PURCHASE DISCOUNTS TAKEN								
								[illegible]	MISC INCOME								
								[illegible]	SVC CHG SLS TO OTH ACTIV								
								[illegible]	SVC CHG DIST CTRS								
								[illegible]	INCOME - BAD CHECK CHRGS								
								[illegible]	LAYAWAY SERVICE CHRGS								
								[illegible]	INCOME MAIL ORDERS								
								[illegible]	INCOME FROM CONCESSIONS								
								[illegible]	INC MONEY ORDS TRAV CKS								
									TOTAL OTHER INCOME								

EXHIBIT 4-7 GENERAL EXPENSE

a. Various General Expenses

The various general expense section is broken-down into the following accounts:

* 320 Area support allocation
* 323 Stationery and supplies
* 325 Repairs, replacements, and alterations
* 327 Auto
* 332 Utility
* 333 Freight and express
* 334 Cash shortages and overages
* 335 Travel
* 336 Telephone, telegraph, and postal
* 337 Maintenance contract labor charge
* 331 Depreciation equipment
* 326 Depreciation building improvement
* 343 Depreciation building

b. Miscellaneous General Expense

The miscellaneous general expense section is broken-down into the following accounts:

* 339-1 Miscellaneous
* 339-2 Uncollected returned checks
* 339-3 Local bank service charges
* 339-4 Merchandise shortage-damage in transit
* 339-5 Conversion differential
* 339-6 Uncollected receivables

* 339-7 Equipment rentals
* 339-8 Overaged merchandise intransit
* 339-9 Maintenance labor charge
* 339-10 Training and development
* 339-11 Custodial labor Navy Exchange crew
* 339-12 Retail clothing store expense credit
* 339-15 Field Support Office reimbursable expense clearance account
* 339-16 Provision for bad debts
* 339-18 Exchange distribution expenses transferred
* 339-19 Consolidated procurement office surcharge
* 339-20 Relocation
* 339-21 Miscellaneous expense data processing
* 339-22 Equipment rental data processing

c. Central Office Expense

The central office expense section consists of a single entry and is an allocation of central office expenses to each exchange based on a percentage of sales.

d. Centrally Funded Exchange Expense

The centrally funded exchange expense section is broken-down into the following accounts:

* 342-1 Workers compensation and public liability
* 342-2 Self insurance
* 342-3 Group insurance medical
* 342-4 Group insurance life
* 342-5 Stationery and supplies

* 342-9 Management trainee program
* 342-11 Executive management program
* 342-10 Miscellaneous

d. Other Income

The other income section is broken-down into the following accounts:

* 344 Purchase discounts taken
* 346-1 Miscellaneous income
* 346-2 Service charge on sales to other activities
* 346-3 Service charge distribution centers
* 346-4 Income from bad check charges
* 346-5 Layaway service charges
* 346-7 Income from mail orders
* 347 Income from concessions
* 348 Income from money orders and travelers checks

5. <u>Operating Statement (Excluding Retail Clothing Stores and Navy Lodges)</u>

The <u>Operating Statement</u>, Exhibit 4-8, provides a summary of information provided on the Retail Operations, Service Operations, General Expense Payroll, and General Expense reports. The operating statement is used by management for a quick overall picture of an exchanges operations.

6. <u>Retail Clothing Stores</u>

The <u>Retail Clothing Store</u> report, Exhibit 4-9, is provided to those exchanges which sell military uniforms that have been procured by the Defense Personnel Support

FORM SC01 - REVISED 8/82

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
SC01 OPERATING STATEMENT (EXCLUDING DEPT LI)

FOR

EXCHANGE NO
PERIOD ENDING

SC01

CURRENT MONTH									YEAR TO DATE							
BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO SLS	DESCRIPTION	BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO SLS
								SALES ALL DEPARTMENTS								
								RETAIL								
								SALES								
								COST OF SALES								
								GROSS PROFIT								
								PERSONNEL COSTS								
								OTHER DIRECT EXPENSE								
								TOTAL DIRECT EXPENSE								
								RETAIL NET CONTRIBUTION								
								SERVICE								
								SALES								
								COST OF SALES								
								GROSS PROFIT								
								PERSONNEL COSTS								
								OTHER DIRECT EXPENSE								
								TOTAL DIRECT EXPENSE								
								SERVICE NET CONTRIBUTION								
								GENERAL EXPENSE								
								PERSONNEL COSTS								
								OTHER EXCH GEN EXP								
								CENTRAL OFFICE EXPENSE NET								
								CENTRALLY FUNDED EXCH EXP								
								TOTAL EXCH GEN EXP								
								EXCH OTHER INCOME								
								EXCH NET PROFIT OR LOSS								

EXHIBIT 4-8 OPERATING STATEMENT

FORM SC10 REVISED 8/82

NAVY RESALE AND SERVICES SUPPORT OFFICE
NAVY EXCHANGE DIVISION
RETAIL CLOTHING STORES

SC10 FOR EXCHANGE NO. PERIOD ENDING SC10

CURRENT MONTH										YEAR TO DATE							
BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO SLS	ACCT NO	DESCRIPTION	BUDGET	% TO SLS	ACTUAL THIS YEAR	% TO SLS	% VAR BUDGET	% VAR LY	ACTUAL LAST YEAR	% TO SLS
									RCS (L-1)								
								302	SALES								
								309	COST OF SALES								
									GROSS PROFIT								
								311	PAYROLL EXPENSE								
								VAR	EMPLOYEE BENEFITS & FICA								
									TOTAL PERSONNEL COST								
								313	STATIONERY & SUPPLIES								
								315	REPAIRS & MINOR REPLACE								
								317	UTILITY EXPENSE								
								319	MISC DIRECT EXPENSE								
									TOTAL OTHER DIRECT EXP								
								305	EQUIPMENT DEPRECIATION								
									NET RCS REIMBURSABLE COST								
								121	INVENTORY AT COST								
									B O M								
									E O M								

EXHIBIT 4-9 RETAIL CLOTHING STORES

Center. These uniforms are sold at cost resulting in either a zero or negative gross profit. The total cost to each Exchange for this operation is reimbursed with appropriated funds leading to a break-even situation for the exchange.

The report provides the sales, cost of sales, gross profit, payroll and benefits, other direct expense, net retail clothing store reimbursable cost, and inventory at cost figures for the beginning and ending of the month.

7. Navy Lodges

The Navy Lodge report, Exhibit 4-10, is provided to those exchanges with Navy Lodges. The report provides sales, cost of sales, gross profit, payroll and benefits, other direct expenses, and net contribution. In addition, since, the Navy Lodge system has been set up as a separate entity from the Navy Resale System the Navy Lodge report includes building and equipment depreciation, and project amortization, as well as, a charge for services rendered by the Navy Resale and Services Support Office. A total Navy Lodge net profit or loss is presented.

F. EXECUTIVE LEVEL REPORTS

Executive level reports are identical in format to those reports received by Exchanges.

1. Regional Reports

To supervise the management of the regional exchanges the region receives a consolidation report for the

FORM SC11 REVISED 9/82

NAVY RESALE AND SERVICES SUPPORT OFFICE

SC11 NAVY LODGES FOR EXCHANGE NO. PERIOD ENDING SC11

CURRENT MONTH										YEAR TO DATE							
BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO S/S	ACCT NO	DESCRIPTION	BUDGET	% TO S/S	ACTUAL THIS YEAR	% TO S/S	% VAR BUDGET	% VAR L/Y	ACTUAL LAST YEAR	% TO S/S
									NAVY LODGE								
								302	SALES								
								309	COST OF SALES								
									GROSS PROFIT								
								311	PAYROLL								
								VAR	EMPL BENEFITS & FICA								
									TOTAL PERSONNEL COST								
								313	STATIONERY & SUPPLIES								
								315	REPAIRS & MINOR REPLACE								
								317	UTILITY EXPENSE								
								319	MISC. DIRECT EXPENSE								
									TOTAL OTHER DIR EXPENSE								
									NET CONTRIBUTION								
									NAVRESSO SERVICE CHRG								
									BLDG DEPRECIATION								
									EQUIP DEPRECIATION								
									PROJECT AMORTIZATION								
									TOTAL NAVY LODGE								
									NET PROFIT (LOSS)								

EXHIBIT 4-10 NAVY LODGES

region as well as copies of each exchanges operating reports. The regional consolidation report is an aggregation of all regional exchange's reports along with the regional office reports. The regional office reports are not within the scope of this thesis. However, they are consistent with the reports received by each exchange.

2. Headquarters Reports

To oversee the management of all exchanges, headquarters level executives receive a worldwide consolidation report, a continental United States consolidation report, and a overseas consolidation report. In addition, if necessary, headquarters executives have access to both regional reports and individual exchange reports.

Besides the operating statements the headquarters level executives receive a comparative balance sheet, this year to last year, at the end of each year.

V. COMPARISONS, CONCLUSIONS, AND RECOMMENDATIONS

A. INTRODUCTION

In this chapter, a comparison of the Navy financial operating reports is made with those prepared by the private and public sector as well as with the National Retail Merchants Association (NRMA). The final section of this chapter presents conclusions and recommendations based on the comparison.

B. COMPARISONS

1. Retail Merchandise Reports

A report similar to the Department Total Company Contribution report, as described in Chapter II, is not prepared by NAVRESSO nor was it provided by any of the private or public sector retailers thus eliminating any comparisons.

The Department Contribution by Selling Location report, described in Chapter II, the NAVRESSO Retail Departmental Operations report and similar reports provided by the private and public sector are compared here. Those items such as, a month-to-date dollar sales amount which are common to the NRMA, and the private and public sector reports are also found in the NAVRESSO report, except mark-down dollars. Of those items that are common to at least two

of the three private and public retailers and the NRMA, only an inventory turnover figure is not provided by NAVRESSO. There are four items which were common to at least one private or public sector retailer and the NRMA which are not provided by NAVRESSO: markdowns dollars last year, sales per square foot, and gross profit per square foot for this year and gross profit per square foot for last year.

2. Expense Reports

In Chapter IV it was stated that there are no expense reports provided by the Navy Resale and Services Support Office other than the limited expense breakdowns provided in the branch store reports. Therefore, comparisons provided in the following section are between the National Retail Merchants Association and the public and private sector companies.

a. Comparative Statement of Operating Expenses by Expense Center and Subcenter

The May Department Stores Company and the company desiring to keep their reports confidential provided reports similar to the Comparative Statement of Operating Expenses by Expense Center and Subcenter. The May Department Stores Company report is similar to the statement suggested by the NRMA, however there are some changes and additions. First there is a column for ranking of expenses within the companies other branch stores. Second, instead of giving the plan and last year dollar amount and

percentage to sales, the May Company report provides the difference, better or worse, than plan and last year in dollars and as a percentage to sales. Finally a column gives the percentage change in expense dollars, actual versus last year.

b. Comparative Statement of Operating Expenses by Natural Division

The Army and Air Force Exchange Service Expense Analysis Statement is similar to the NRMA Comparative Statement of Operating Expenses by Natural Division in that the AAFES report provides current period and year-to-date expense dollars and expenses as a percentage of sales by natural division and a last year year-to-date percentage of sales. Besides the figures provided by the AAFES report the NRMA report provides budget and budget variance in dollars and as a percentage of sales as well as a last year dollar amount. The lack of either a budget or budget variance on the AAFES report does not allow evaluation of information in relation to objectives as stated in Chapter II under improving the effectiveness of management reports.

c. Other Expense Reports

The Expense Center Report, Expense Center Productivity Report, Expense Center Report Flexible Budget, and Payroll and Production Summary have no private or public sector reports with which to be compared. The J. C. Penny Company report and a report from the company requesting

confidentiality were both expense reports by natural division within an expense center. Though these type reports were not suggested by the National Retail Merchants Association the Retail Accounting Manual stated that some firms would want to make changes in the form of presentation.

3. Cost or Non-Retail Merchandise Reports

In this area only the NRMA and the public sector retailer, AAFES, provide reports to compare to NAVRESSO reports.

The NRMA Workroom and Cost Department Operating Statement is heavily oriented towards workrooms which are rarely seen, or may even be non-existent within Navy Exchanges. The major point of interest in the NRMA report is that after direct gross profit is computed, operating expenses by expense center are subtracted to determine operating profit or loss for cost selling departments.

In comparing the AAFES cost department operating statement with the NAVRESSO Service Departmental Operations and Service Department Benefits and Other Direct Expense reports there are several differences. First, AAFES provides a separate report for each of its cost operations, (Food, Services, and Vending), whereas NAVRESSO places all cost departments in separate sections on the same sheet. Second, NAVRESSO has further segregated its Services departments into Barber Shops, Beauty Shops, Gasoline Operations,

Auto Repair, Optical Shops, Flower Shops, Food Operations, Personalized Services, and Vending Operations versus the three listed above for AAFES. Third, AAFES has more direct expense categories than NRMA's natural divisions while NAVRESSO has fewer categories than NRMA's natural divisions. Finally, the NAVRESSO reports provide figures for budget, actual, and last year for the current month and year to date while the AAFES reports only provide actual for the current month and year-to-date.

4. Branch Store Reports

In comparing NRMA's Individual Store Location Operating Statement, the branch operating statements provided by J. C. Penny Stores Company, F. W. Woolworth Company, and Army and Air Force Exchange Service as well as the Navy Resale and Services Support Office statement it should be noted that each private sector retailer, AAFES and the NRMA segment leased sales. This segmentation is done on the individual operating statements; except for AAFES where it is done on the Analysis and Statistics Statement. NAVRESSO does not segment leased sales. Gross profit is shown as sales minus cost of sales giving gross profit on the J.C. Penny Stores, AAFES, and NAVRESSO statements. On the F.W. Woolworth Company and NRMA statements gross profit is shown without cost of sales. The retailers use different methods of reporting expenses. J. C. Penny Stores

summarizes expenses in natural divisions. F. W. Woolworth Company and AAFES list expenses in natural divisions and subdivisions. The National Retail Merchants Association lists expenses by expense center. The Navy Resale System lists expenses by natural division and subdivision.

5. Executive Level Reports

a. Total Company Balance Sheet

A total company balance sheet as presented by the NRMA was not received from any of the public or private sector retailers. A typical balance sheet was received from the Carter Hawley Hale Stores, Inc. which compares this year to last year and plan. A similar balance sheet is also provided by NAVRESSO, however, it only compares this year to last year.

b. Condensed Income Statement

When comparing the condensed income statements provided by the J. C. Penny Stores Company, the May Departments Stores Company, and Carter Hawley Hale Stores, Inc. with the National Retail Merchants Association Condensed Income Statement little difference is found in the information provided. The information provided on the Army and Air Force Exchange Service and Navy Resale and Service Support Office condensed income statement is presented in a different format. Instead of summarizing all departments data AAFES segments retail, food, services, and vending department data while NAVRESSO segments retail and

services data. Besides this segmentation each public sector retailer then reports general expenses leaving exchange net earnings. AAFES and NAVRESSO reports provide the same type comparisons as the private sector and NRMA reports, ie. this year, last year, plan, and variance to plan.

c. Total Company Income and Expense Statement

There were no reports similar to the NRMA Total Company Income and Expense Statement.

C. CONCLUSIONS, DISCUSSION, AND RECOMMENDATIONS

1. Retail Merchandise Reports

a. Department Total Company Contribution Report

Recommendation:

A department total company contribution report presented in Chapter II, Exhibit 2-1 should be adopted at this time. The reports distribution would be limited to those activities that perform "significant" purchasing functions such as regions and independent main Exchanges not under a region.

This report computes a gross profit margin for each department and then subtracts that department's direct merchandising payroll and promotional expenses to determine a departmental contribution. Such a report would be meaningful in the Navy Resale System.

As stated in Chapter II a buyer's performance must be measured. This measurement is possible, to a limited extent, with the current Retail Departmental Operations report. However, it does not include any direct

merchandising payroll or promotional expenses. The recent conversion to a more regionalized system of purchasing by the Navy Exchange System, facilitates a reasonable allocation of a buyer's and related staff members payroll to a given department.

As for promotional expenses the Navy Resale System has traditionally spent little in advertising, using point of sale display almost exclusively to reach its market. In the past few years more and more dollars have been spent on the direct mailing of advertisements to patrons. Though direct mail advertising is not as costly as radio and television advertising, direct mail is becoming a more significant item and is in need of more control. Tracking of the direct merchandising payroll and promotional expense will provide management with the information to control direct merchandising payroll and promotional expense as necessary.

b. Department Contribution by Selling Location Report

Recommendation:

Inventory turnover, sales per square foot, gross profit per square foot for this year, and gross profit per square foot for last year be added to the <u>Retail Departmental Operations</u> report.

The <u>Retail Departmental Operations</u> report, the equivalent of the NRMA's <u>Department Contribution by Selling Location</u> report, does not provide six items of statistical information, listed above in the comparison section as being

provided by the NRMA and public and private sector retailers.

Based upon this research the author concludes that of the six items listed, the two markdown dollar figures can be eliminated from consideration for inclusion on the Retail Departmental Operations report. A markdown percentage to sales figure is provided and is the more useful figure when reviewing or budgeting markdowns since markdowns are budgeted as a percentage of sales.

The other four items, inventory turnover, sales per square foot, gross profit per square foot for this year, and gross profit per square foot for last year, can be added to the report by removing the beginning-of-month inventory figure (which is already available under the heading End-of-Month Inventory on the previous months report) and reducing the size of the department title column. The inventory turnover figure is needed, it is an indicator of departments with dead stock that needs management action. The sales per square foot and gross profit per square foot figures are needed to ensure management properly allocates floor and shelf space to the items that are selling as well as generating profit for the store.

Besides the lack of statistical figures, the NRMA Department Contribution by Selling Location report subtracts various direct selling expenses from each depart-

ment before coming to a departmental contribution for each department. A comparison of the NAVRESSO *Retail Departmental Operations* report shows that direct selling expense is not subtracted from each department. This is appropriate because of the size of each Navy Exchange department. At all but the very largest exchanges one person may handle several different departments. At some of the smaller exchanges one person may be responsible for every department in the store. However, total retail department gross margin minus direct selling expenses giving a total retail department contribution is presented on the *Retail Operations* report and is discussed later in this chapter.

2. *Expense Reports*

a. General

Recommendation:

A system using expense centers and natural divisions be implemented.

The Navy Resale and Services Support Office does not provide comparative expense reports. From this lack of comparative expense reports indicates that expense analysis is an area in need of revision by the Navy Resale System.

As stated in Chapter II expense accounting improves profitability through the control of operating expenses. This is done by accumulating operating expenses into expense centers and then holding the center's manage-

ment responsible for controlling expenses by comparing actual to budgeted and prior years' figures. It was also pointed out in Chapter II that there is only limited usefulness of comparisons among stores when using natural divisions because of the diversified manner in which stores perform identical activities.

The Navy Resale System branch store reports use quasi-natural divisions in the expense section of the report, instead of expense centers, to hold its managers accountable. The use of natural divisions could be argued for when each Exchange was considered a separate entity and pro-rations would have been extremely difficult, but now that most Exchanges have been formed into regions and the pro-ration problem has been significantly reduced the argument is more difficult to justify.

Though implementation of this system is not within the scope of this thesis it is realized that there will in all likelihood be major resistance to a change of this magnitude. However, if the Navy Resale System is to remain competitive with other major retailers the change must be made so that adequate comparisons can be made with private and public sector retailers.

b. Comparative Statement of Operating Expenses by Expense Center and Subcenter

Recommendation:

A modified version of the Comparative Statement of Operating Expenses by Expense Center and Subcenter presented in Chapter II, Exhibit 2-4B be adopted.

The Navy Resale and Services Support Office does not provide a comparative statement of operating expenses by expense center and subcenter.

To maintain the current level of support to the Navy Welfare and Recreation funds the Navy Resale System must be competitive with other retailers in the private and public sector. To be competitive the Navy Resale System must be able to compare its operating and financial statistics with that of other major retailers. To make these necessary comparisons a report similar to the Comparative Statement of Operating Expenses by Expense Center and Subcenter is needed. The specific subcenters used in the report would be modified to better correspond with the Navy Resale System. For example the use of sub-centers 425 (Radio) and 426 (TV) would be eliminated. The rest of the statement's format is suitable.

c. Comparative Statement of Operating Expenses by Natural Division

Recommendation:

It is recommended that a modified version of the Comparative Statement of Operating Expenses by Natural Division presented in Chapter II, Exhibit 2-5 be adopted.

The Navy Resale and Services Support Office does not provide a comparative statement of operating expenses by natural division.

Though comparisons by natural division are not as beneficial as comparisons by expense center they are still of use when analyzing expenses. Therefore a report such as the Comparative Statement of Operating Expenses by Natural Division is needed. The report should be modified by adding at least one natural division for utilities because of the major emphasis now placed on utilities expense. For ease of comparison with other major retailers the elimination of natural divisions provided in the Retail Accounting Manual is not recommended. The rest of the statement's format is suitable to the Navy Resale System.

d. Other Expense Reports

Recommendation:

The other expense center reports be phased into the system as soon as management considers it feasible but no later than one year from initial implementation of the proposed system.

The Navy Resale and Service Support Office does not provide an Expense Center Report, Expense Center Productivity Report, Expense Center Report Flexible Budget, or a Payroll and Production Summary.

As suggested in Chapter II each of the above reports is necessary to the proper management of a retail organization. The Expense Center Report is necessary to

report expenses within an expense center and to give feedback on management of the expense center. The Expense Center Productivity Report provides feedback with specific productivity measurements for those areas where production goals can be set. The Expense Center Report Flexible Budget establishes the budget used on the Expense Center Report. The Payroll and Production Summary provides a breakdown of payroll expenses -- normally the largest expense in every expense center. Given the magnitude of change required by this new expense accounting system it would be better to phase these remaining expense reports in over time.

3. Cost or Non-Retail Merchandise Reports

The cost or non-retail merchandise reports require modification to be compatible with the recommended change to the expense accounting system and the treatment of leased sales and commissions in Chapter II.

a. Service Department Operations Report

Recommendation:

A report similar to the Service Department Operations report shown in Exhibit 5-1 be adopted.

The Service Departmental Operations report presently aggregates all sales, cost and leased. It also aggregates cost departments gross profit and leased departments commissions. To show a more accurate picture of owned versus leased sales and related gross profits the sales and commissions of leased operations should be separated from

SERVICE DEPARTMENT OPERATIONS

DEPARTMENT		INVENTORY BOM	AT COST EOM	COST SALES	LEASED SALES	TOTAL SALES	COST GROSS	% TO SLS	LEASED GROSS	% TO SLS	TOTAL GROSS	% TO SLS	EXPENSES	% TO SLS	LOC CONT	% TO SLS
	BUDGET															
	ACTUAL															
J1	ACTUAL LY															
	BUD YTD															
	ACT YTD															
	LY YTD															
	BUDGET															
	ACTUAL															
J2	ACTUAL LY															
	BUD YTD															
	ACT YTD															
	LY YTD															
	BUDGET															
	ACTUAL															
J3	ACTUAL LY															
	BUD YTD															
	ACT YTD															
	LY YTD															
	BUDGET															
	ACTUAL															
J5	ACTUAL LY															
	BUD YTD															
	ACT YTD															
	LY YTD															

EXHIBIT 5-1 SERVICE DEPARTMENT OPERATIONS

owned operations. The current report does give a breakdown of services payroll, employee benefits, other direct expense, and depreciation before computing the net departmental contribution. These four divisions of expense are not necessary when holding management responsible by expense center instead of by natural division, therefore a single column titled expenses is all that is required. The new _Service Department Expense Center Report_ will give a breakdown of expenses by expense summary.

b. Service Department Expense Center Report

Recommendation:

A report similar to the _Service Department Expense Center Report_ shown in Exhibit 5-2 be adopted.

The natural division expense breakdown on the current _Service Department Benefits and Other Direct Expense_ report is not necessary when managing by expense centers. The natural division breakdowns should be replaced with expense summary breakdowns and a column should be added for average wage rate until the _Payroll and Production Summary_ report is produced.

4. _Branch Store Reports_

Chapter II recommended change to the expense accounting system and the separation of leased sales and commissions from owned sales and gross profit. Current branch store reports requires modification to make them compatible with the recommended changes.

SERVICE DEPARTMENT EXPENSE CENTER REPORT

DEPARTMENT		PROP & EQUIP	COMP MGMT	CREDIT & ACCTS RECV	SALES PROMO	SERV & OPER	PERS	MERCH, RECV, STOR, & DIST	SELL & SUPP SERV	TOTAL	MME	AWR	$ SALES/ EQUIV MM
	BUDGET												
	ACTUAL												
J1	ACTUAL LY												
	BUD YTD												
	ACT YTD												
	LY YTD												
	BUDGET												
	ACTUAL												
J2	ACTUAL LY												
	BUD YTD												
	ACT YTD												
	LY YTD												
	BUDGET												
	ACTUAL												
J3	ACTUAL LY												
	BUD YTD												
	ACT YTD												
	LY YTD												
	BUDGET												
	ACTUAL												
J5	ACTUAL LY												
	BUD YTD												
	ACT YTD												
	LY YTD												

EXHIBIT 5-2 SERVICE DEPARTMENT EXPENSE CENTER REPORT

a. Retail Operations

Recommendation:

A report similar to the Retail Operations report shown in Exhibit 5-3 be adopted.

The Retail Operations report, the equivalent of the NRMA Individual Store Location Operating Statement, does not show leased sales or commissions separately from owned departments. As is indicated in Chapter II, to show a true picture of sales and related gross profits the sales and commissions of leased operations should be separated. In addition the Retail Operations report currently lists expenses by natural division versus expense summary. Again when managing by expense centers, instead of natural divisions, a breakdown by expense summary is more beneficial. Until a Payroll and Production Summary report is put into use: man month equivalents, average wage rate, and dollar sales per equivalent man month should be reported on the Retail Operations report.

b. Services Operations

Recommendation:

A report similar to the Service Operations report shown in Exhibit 5-4 be adopted.

The changes necessary on the Service Operations report are almost identical to those on the Retail Operations report. The only exception is that man month equivalents, average wage rate, and dollar sales per equiva-

RETAIL OPERATIONS

CURRENT MONTH								YEAR-TO-DATE						
BUDGET	% TO SLS	THIS YEAR	% TO SLS	% VAR BUDGET	LAST YEAR	% TO SLS	DESCRIPTION	BUDGET	% TO SLS	THIS YEAR	% TO SLS	% VAR BUDGET	LAST YEAR	% TO SLS
							RETAIL							
							NET SALES							
							OWNED							
							COST							
							LEASED							
							TOTAL							
							GROSS MARGIN							
							OWNED							
							COST							
							LEASED							
							TOTAL							
							EXPENSES							
							PROPTY & EQUIP							
							COMPANY MGMT							
							ACCT & MGMT INFO							
							CREDIT & ACCTS RECV							
							SALES PROMOTION							
							SERVICE & OPERATIONS							
							PERSONNEL							
							MERCH, RECV, STOR, & DIST							
							SELLING & SUPPORT SVC							
							TOTAL							
							LOCATION CONTRIBUTION							
							REC & SHIP MME							
							AWR							
							$ S/EMM							
							DIRECT MME							
							AWR							
							$ S/EMM							
							PROC MME							
							AWR							
							P/R $ BEFORE ALLOC							

EXHIBIT 5-3 RETAIL OPERATIONS

SERVICES OPERATIONS

CURRENT MONTH								YEAR-TO-DATE						
BUDGET	% TO SLS	THIS YEAR	% TO SLS	% VAR BUDGET	LAST YEAR	% TO SLS	DESCRIPTION	BUDGET	% TO SLS	THIS YEAR	% TO SLS	% VAR BUDGET	LAST YEAR	% TO SLS
							SERVICES							
							NET SALES							
							OWNED							
							COST							
							LEASED							
							TOTAL							
							GROSS MARGIN							
							OWNED							
							COST							
							LEASED							
							TOTAL							
							EXPENSES							
							PROPTY & EQUIP							
							COMPANY MGMT							
							ACCT & MGMT INFO							
							CREDIT & ACCTS RECV							
							SALES PROMOTION							
							SERVICE & OPERATIONS							
							PERSONNEL							
							MERCH, RECV, STOR, & DIST							
							SELLING & SUPPORT SVC							
							TOTAL							
							LOCATION CONTRIBUTION							

EXHIBIT 5-4 SERVICES OPERATIONS

lent man month listed on the Retail Operations report are reported on the new Service Department Expense Center report and are not needed on the Service Operations report.

c. General Expense Payroll and General Expense

Recommendation:

The General Expense Payroll and General Expense reports be eliminated.

The General Expense Payroll and General Expense reports are no longer necessary: The information would be available on the new expense reports.

d. Operating Statement (Excluding Retail Clothing Stores and Navy Lodges)

Recommendation:

A report similar to the Operating Statement shown in Exhibit 5-5 be adopted.

The changes necessary on the Operating Statement are almost identical to those on the Retail Operations report. The only exception is that allocation of regional and headquarters expenses as well as centrally funded exchange expenses would be subtracted and other income would be added to the location contribution to give a total exchange net profit or loss.

e. Retail Clothing Stores and Navy Lodges

Recommendation:

The Retail Clothing Stores and Navy Lodges report be changed to separate owned sales and gross profit from leased sales and commissions as well as reflect expense summaries versus expense natural divisions.

OPERATING STATEMENT (EXCLUDING RETAIL CLOTHING STORES AND NAVY LODGES)

CURRENT MONTH							DESCRIPTION	YEAR-TO-DATE						
BUDGET	% TO SLS	THIS YEAR	% TO SLS	% VAR BUDGET	LAST YEAR	% TO SLS		BUDGET	% TO SLS	THIS YEAR	% TO SLS	% VAR BUDGET	LAST YEAR	% TO SLS
							EXCHANGE							
							NET SALES							
							OWNED							
							COST							
							LEASED							
							TOTAL							
							GROSS MARGIN							
							OWNED							
							COST							
							LEASED							
							TOTAL							
							EXPENSES							
							PROPTY & EQUIP							
							COMPANY MGMT							
							ACCT & MGMT INFO							
							CREDIT & ACCTS RECV							
							SALES PROMOTION							
							SERVICE & OPERATIONS							
							PERSONNEL							
							MERCH, RECV, STOR, & DIST							
							SELLING & SUPPORT SVC							
							TOTAL							
							LOCATION CONTRIBUTION							
							ALLOCATION OF							
							REGIONAL EXPENSE							
							CENTRAL OFF EXP							
							CENTRALLY FUND EXP							
							EXCH OTHER INCOME							
							EXCH NET PROFIT OF (LOSS)							

EXHIBIT 5-5 OPERATING STATEMENT

Like the retail stores, retail clothing stores and Navy Lodge's could be operated as leased operations or owned operations. Therefore for uniformity owned sales and gross profit should be separated from leased sales and commissions. As before expenses should be changed to reflect expense summaries.

5. Executive Level Reports

a. Total Company Balance Sheet

Recommendation:

A report similar to the Total Company Balance Sheet presented in Chapter II should be developed for use at the headquarters level of the Navy Resale System.

The Navy Resale and Services Support Office does not prepare a total company balance sheet.

As stated in Chapter II the total company balance sheet is considered necessary for management. The trend format of the balance sheet allows management to more easily spot problems. The Total Company Balance Sheet presented in Chapter II would need some changes such as the removal of income taxes and deferred income taxes since they are not applicable to the Navy Resale System. Other changes might include revisions to column names and the possible addition of other financial ratios.

b. Condensed Income Statements

Recommendation:

A condensed income statement be prepared by aggregating at the worldwide level the Operating Statement proposed in this chapter.

Changes to the current Navy Resale System operating statement necessitate changes to the current NRS condensed income statement.

The Navy Resale System condensed operating statement is a worldwide aggregation of operating statement's. This method of aggregating at different levels, but using the same format, is consistent with Chapter II. To improve the effectiveness of reports, uniform formats should be established for all reports so that it is easy for an executive to follow one report to another. Based on the analysis in Chapters II through V recommendations were made for changes to the Operating Statement. It follows that these changes will be reflected in the condensed operating statement.

c. Total Company Income and Expense Statement

Recommendation:

A Total Company Income and Expense Statement similar to that presented in Chapter II Exhibit 2-13 be prepared for executives at the headquarters level.

The Navy Resale and Services Support Office does not prepare a total company income and expense statement.

Though no reports similar to the Total Company Income and Expense Statement were provided by either the public or private sector retailers; this author agrees, with the National Retail Merchants Association, that there is a need for such a statement. As was stated in Chapter II the report provides a quick overall picture of the operating

results in a trend format. This tends to highlight potential problems and allows the executive to take faster action to correct a problem.

D. CLOSING REMARKS

The author does not recommend that changes to the Navy Resale and Services Support Office financial reporting system be made entirely on the basis of this thesis without extensive cost benefit analysis into the areas discussed in the above recommendations. Though the emphasis of this thesis was in the area of what financial information should be available, and not how it would be implemented, thought was given to the area of implementation before each recommendation. Though there may be resistance to changing the old financial reporting system by staff that currently use it, with strong support from the Commander of the Navy Resale and Service Support Office the implementation of the changes would be successful and as demonstrated in this thesis useful.

APPENDIX A

GROSS MARGIN COMPUTATION

This manual suggests several specific departmentally-grouped gross margin results rather than condensing all of these group figures into a single total. To the extent that the groupings apply to each individual selling location, they are set forth separately, as follows:

1. Gross Margin—Owned Retail Departments
2. Gross Margin—Owned Cost Departments (including Contract)
3. Gross Margin—Leased/Licensed Departments

As a general rule, gross margin for owned departments is derived by subtracting from net sales the following: a) total net cost of merchandise sold, b) workroom loss or gain, and c) other cost of sales.

1. **Owned Retail Departments**

The net cost of *merchandise sold for owned retail departments* is obtained as follows:

a. Merchandise inventory at gross cost (before cash discount) at the beginning of the period	$______
b. Net merchandise purchases at gross invoice cost for the period	______
c. Inward transportation cost on merchandise purchases for the period	______
d. Total—Sum of a, b, and c	$______
e. Merchandise inventory at gross cost, at the end of the period	______
f. Amount (d) less amount (e), such difference being the gross cost of merchandise sold for the period	$______
g. Cash discounts earned	______
h. Net cost of merchandise (f-g)	$______

The net cost of *merchandise sold for owned retail departments* is obtained by subtracting the cash discounts earned on merchandise purchases from the gross cost of merchandise sold.

The calculation of the amount of cash discounts earned on purchases is to be determined as follows:

—Merchandise of retail inventory departments should be carried in inventory on a gross cost basis—that is, before cash discounts.

—As a corollary of a), discounts may be taken into income only as earned. Consequently, it is necessary to maintain a reserve for unearned discounts to apply against the inventory account carried on a gross cost basis. To do otherwise would be to overstate gross margin in some years and understate it in others. The computation of the unearned discount should be based on the average rate of discount on purchases by departments during the period, considering also discounts applicable to the opening inventory.

To determine the total merchandise costs for retail inventory departments, it is necessary to add net workroom loss or gain and other cost of sales, if any, to the previously-established gross cost of merchandise sold.

2. Owned Cost Departments

In the instance of cost departments, purchases are normally entered net of cash discounts, if any. The total merchandise costs for owned cost departments is obtained as follows:

a. Inventory at net cost at the beginning of the period

   The inventory should be priced at net cost or market, whichever is lower.

b. Purchases at net cost for the period

   Include here all purchases of materials and supplies, less returns and allowances, trade discounts, and cash discounts. Include also all direct labor and other production costs.

c. Transportation cost on purchases for the period

d. Total sum of a, b, and c

e. Inventory at net cost at the end of the period

f. Amount (d) less amount (e)

   This difference is the total merchandise cost of owned cost departments, after cash discount, for the period.

APPENDIX B

EXPENSE CENTER ACCOUNTING

A. Introduction to Expense Accounting

The primary objective of expense accounting is control through the accumulation of operating expenses by major areas of responsibility. This accumulation is necessary because a prerequisite for controlling expenses is the identification of responsibility for the incurrence of the expenses. After expenses are accumulated by major areas of responsibility and identified with the individual executives responsible for each operation, performance can be measured by comparing actual expenses incurred with planned and prior years' results.

The basic framework of the chart of accounts consists of a breakdown of total operating expenses first into expense summaries and then into expense centers and sub-expense centers which conform to the areas of responsibility within a retail store.

The chart of accounts provides for ten major categories (expense summaries) for the accumulation of expenses, as follows:

010 Property and Equipment
100 Company Management
200 Accounting and Management Information
300 Credit and Accounts Receivable
400 Sales Promotion
500 Service and Operations
600 Personnel
700 Merchandise Receiving, Storage, and Distribution
800 Selling and Supporting Services
900 Merchandising

As shown in Exhibit 1 at the end of Chapter I, for companies that want a further breakdown of expenses by responsibility, 44 expense centers and 22 sub-expense centers are provided within the ten expense summaries. This expense breakdown provides companies with a degree of flexibility in the recording and reporting of expenses.

The total expenses within each expense summary or expense center are classified by "natural divisions of expense." The chart of accounts specifies 17 natural divisions of expense (described more fully in Section D).

Not all of the 17 natural divisions are included in every expense center. Some natural divisions—media costs, bad debts, pensions, and real property rentals— are restricted to only one expense center, while other natural divisions—payroll, supplies, unclassified, and travel —are included in most expense centers.

In addition to the 17 basic natural divisions, three additional natural divisions are provided for the redistribution of expenses between expense centers. Costs are accumulated in each expense center by the various natural divisions of expense. Whenever practicable, it is advisable to make charges directly to the various expense centers. Occasionally it is necessary to effect a transfer of expense from one expense center to another in order to reflect properly the actual operating costs of the expense center. When such a transfer involves an expense of a single natural division, the debit and the offsetting credit to the expense centers involved should be made through the particular natural division involved. However, when the amount to be transferred out of an expense center is the composite of several natural divisions, then the credit to the expense center should be made in Natural Division 91 - Expense Transfers Out, and the debit or charge to the other expense center should appear in Natural Division 90 -

Expense Transfers In. For example, data processing provides services for various expense centers such as accounts receivable and merchandise control. Therefore, Expense Center 280 - Data Processing includes Natural Division 91 - Expense Transfers Out while Expense Centers 340 - Accounts Receivable and Bill Adjustment and 930 - Merchandise Control include Natural Division 90 - Expense Transfers In. Natural Division 02 - Allocated Fringe Benefits has been provided to facilitate the allocation of fringe benefits so that fringe benefits may be correlated with payroll in each expense center.

Every expense item is assigned or coded with a basic five-digit number, as will become clear after reading Section D of this chapter. The first three digits represent the expense center charged with the expense, and the last two digits represent the natural division involved. Thus, the payroll (Natural Division -01) of the controller (charged to Expense Center 210) is coded or identified as 210-01.

The description of each expense center includes an introduction which describes the content and nature of the work of each expense center as well as the type of expenses to be accumulated therein. In determining where charges should be made, especially those relating to payroll, the user of the manual should read the description of work operations and the description of payroll charges in each expense center.

In establishing a basis for accumulating expenses in each expense center, a decision had to be made whether to provide for all conceivable costs related to that expense center or to recognize only the major portion of costs. In certain expense centers, the accumulation of costs approaches the all-inclusive basis. In most other centers, however, some costs are excluded because the work required to make the finer segregation would probably not be worth the effort. For example, the delivery and data-processing expense centers include all the equipment costs associated with the work of those centers, while the equipment costs associated with the accounts receivable and bill adjustment expense center are excluded. It should also be noted that in no case—even in those centers where the full cost concept is approached—can it be said that every item of cost has been provided for.

The concept of expense accounting outlined above has guided the development of a practical manual that takes into consideration management's need to minimize clerical costs as well as to obtain vital accounting data.

B. Revisions in Expense Centers

The major revisions in expense centers are as follows:

1. The establishment of ten expense summaries
2. An increase in the number of expense centers from 23 to 44, plus 22 sub-expense centers, making a total of 66 expense areas of activity
3. The establishment of a management expense center within each expense summary (except 010), such as 110, 210, etc.
4. The establishment of a separate expense center for Data Processing, 280
5. The designation of five expense centers as equipment-intensive centers and the assignment of the depreciation, equipment rental, and outside maintenance and equipment service contract natural divisions to those five expense centers.

Following are brief descriptions of the five major revisions:

The establishment of ten expense summaries is intended for those smaller companies and single-unit speciality stores which do not require the detailed breakdown provided by the 66 areas of activity. For smaller companies, the costs of maintaining the detailed information outweigh the advantages provided by the more detailed breakdown of expenses.

The increase in the number of expense centers from 23 to 44 (plus 22 sub-expense centers) is provided as a guide for larger companies which desire a more detailed breakout of expense centers. The increasing importance of controlling expenses has led to a desire for a finer breakdown of expense centers so that responsibility can be more strictly assigned and monitored. With the increased use of electronic data processing, the task of accumulating expenses has also become easier.

At the same time, the new structure provides for more detailed fan-out possibilities for

those larger stores which need a breakdown of more than 66 expense centers for their internal reporting purposes. For example, within Expense Center 210 (Control Management, General Accounting, and Statistical), a store may provide expense centers for Control Management (211), General Accounting (212), and Statistical (213). For external reporting purposes, 211, 212, and 213 would be summarized in 210. The Accounts Payable expense center (230) may be broken out into an Order Office (231) and an Invoice and Payment Office (235), which would then be summarized in 230 for external reporting purposes.

A "management" expense center whose last two digits are 10 is included in each expense summary (except 010) to accumulate the supervision and other management costs of operations, such as fees paid for hiring executives, and dues, and subscriptions, etc.

In providing for the allocation of payroll costs to the management expense centers of the respective expense summaries, it was determined that those executives who report directly to the chief executive officer and who represent the policy making level of the company should be charged to payroll in Expense Account 110-01 instead of in their respective expense centers. For example, in larger stores where vice presidents-merchandising for fashion merchandise and hard goods oversee the merchandising function of the various departments and determine the merchandising philosophy of the store, their payroll would be charged to 110-01 instead of 910-01.

For the purpose of reporting statistics to outside financial services and trade publications, the "10" expense summaries serves as an accumulation of all other expense centers within a particular expense summary. If a company uses an expense center within an expense summary and chooses not to use all of the expense centers within that expense summary, then it should use the 10 expense center to accumulate all of the expenses identified with the specific centers that it chose not to use. For example, if a company chooses to break out only Branch Management (130) within the Company Management expense summary, then Internal Audit (140) and Legal and Consumer Activities (150) should be accumulated in Expense Center 110 along with Executive Office.

A separate expense center for data processing has been included in the revised chart of accounts. Accounting and data processing were previously combined in Expense Center 210 and no provision existed for transferring data processing costs to other expense centers. In recent years, the data processing function has assumed the performance of many functions outside the accounting expense center, such as billing and credit authorization in Expense Summary 300 - Credit and Accounts Receivable, and Merchandise Control in Expense Summary 900 - Merchandising. Therefore, a separate expense center for data processing has been added in the revised edition, including a provision for the transfer of expenses to the expense center served by data processing.

Most data processing costs (including program maintenance, but excepting research and development, the costs of reruns caused by data processing department errors, and the net underutilized capacity of the data processing center) should be allocated to other expense centers. Therefore, the only costs remaining in the data processing expense center will be the residual costs — that is, underutilized capacity, research and development, etc.

This manual does not recommend any particular basis for the allocation of data processing expenses. The use of elapsed time for each EDP application performed for other expense centers would seem to be the most appropriate method. Where a specific EDP application benefits more than one expense center, another relevant allocation should be made.

Five expense centers are identified as equipment-intensive expense centers—that is, expense centers where equipment represents a significant investment and where a major portion of the work operations of the center has been mechanized. These expense centers are as follows:

280 Data Processing
550 Telephones and Communications
720 Receiving and Marking
750 Shuttle Services
880 Delivery

Natural Divisions 13 - Depreciation and 17 - Equipment Rentals have been assigned only to these five expense centers, and to the two property and equipment expense centers (020 and 030). Depreciation and Equipment Rentals for all expense centers other than the above five should be charged to 020 or 030 - 13 and 17. Natural Division 18 - Outside Maintenance and Equipment Service Contracts has also been assigned to these five expense centers. Outside Maintenance and Equipment Service Contracts for all other expense centers should be charged to 580-18, Maintenance and Repairs.

C. Transfers of Expenses Between Expense Centers

Since the primary emphasis of this manual is effective expense control rather than the identification of the total cost of each activity performed, the manual generally follows the principle that all expenses shall be charged to the center where the work is done, with no transfer being made when work is done for the use and benefit of another center. However, it is occasionally necessary to effect a transfer from one expense center to another in order to reflect properly the actual operating costs of the expense centers. When a transfer involves a single natural division, the debit and the offsetting credit are made through the natural division involved. When the amount to be transferred out of an expense center is the composite of several natural divisions, then the credit should be made in Natural Division 91 - Expense Transfers Out and the corresponding debit or charge to the other expense center should appear in Natural Division 90 - Expense Transfers In.

The chart of accounts contains Natural Division 91 - Transfers Out for the following expense centers, where transfers out are significant:

280 — Data Processing
550 — Telephones and Communications
580 — Maintenance and Repairs
880 — Delivery

Similarly, the chart of accounts provides Natural Division 90 - Transfers In for the following expense centers:

210 — Control Management, General Accounting, and Statistical
220 — Sales Audit
230 — Accounts Payable
240 — Payroll and Timekeeping Department
280 — Data Processing
310 — Credit Management
330 — Collection
340 — Accounts Receivable and Bill Adjustment
420 — Advertising
430 — Shows, Special Events, and Exhibits
720 — Receiving and Marking
750 — Shuttle Services
820 — Direct Selling
930 — Merchandise Control

The purpose of these transfer accounts, therefore, is to provide a means of effecting transfers or reductions in the total costs charged to an expense center without disturbing the other natural divisions.

For example, Data Processing (Expense Center 280) contains account number 280-91 for Expense Transfers Out so that companies may credit here data processing costs allocable to other expense centers, such as:

210-90 Control Management, General Accounting, and Statistical
220-90 Sales Audit
230-90 Accounts Payable
240-90 Payroll and Timekeeping Department
310-90 Credit Management
330-90 Collection
340-90 Accounts Receivable and Bill Adjustment
930-90 Merchandise Control

Allocated Fringe Benefits (Natural Division — 02)

In recent years, supplementary payroll benefits have increased. Since the magnitude of this expense per employee is substantial, a greater effort should be made to exercise control over the total of payroll plus supplementary benefits. To accomplish this and to focus supervisory attention on this problem, a separate natural division (02) has been created for allocated fringe benefits. Its position in the chart of accounts, immediately after payroll, will focus attention on the total of payroll and supplementary benefits; thus expense control efforts can be exerted accordingly.

All of the actual expenses which comprise total fringe benefits are initially accumulated in their proper natural division in Expense Center 660 - Medical and Other Employee Services and Expense Center 670 - Supplementary Benefits. The 02 classification has been provided to permit the redistribution of fringe benefit expenses from Expense Centers 660 and 670 to all other expense centers having a payroll natural division. The offsetting credit to these charges should be to Expense Account 660-02 or 670-02.

This allocation of total expense of Expense Centers 660 and 670 to each expense center should be based on the total payroll costs of each of the expense centers.

D. Natural Divisions of Expense

All expenses of operating a retail firm, whether an individual unit or part of a multi-store group, and all expenses of the centralized functions that are related to the operation of a group of retail selling locations, are classified into one of the 17 basic natural divisions of expense. All of these, except 08 — Unclassified, are descriptive of a major category of expense, referred to hereafter as natural divisions. A separate basic natural division, 92 — Credits and Outside Revenues, has been established to provide for such credits to expense as may result from the receipt of outside revenue or from a charge to accounts outside the framework of the expense centers.

The natural divisions of expense are as follows:

Basic Natural Divisions

01 — Payroll
03 — Media Costs
04 — Taxes
06 — Supplies
07 — Services Purchased
08 — Unclassified
09 — Travel
10 — Communications
11 — Pensions
12 — Insurance
13 — Depreciation
14 — Professional Services
16 — Bad Debts
17 — Equipment Rentals
18 — Outside Maintenance and Equipment Service Contracts
20 — Real Property Rentals
92 — Credits and Outside Revenues

Additional Natural Divisions (Transfer Accounts - See Chapter II, Section C)

02 — Allocated Fringe Benefits
90 — Expense Transfers In
91 — Expense Transfers Out

The 17 basic natural divisions of expense together with three additional natural divisions - 02 - Allocated Fringe Benefits, 90 - Expense Transfers In and 91 - Expense Transfers Out — provided for redistribution and offset purposes constitute the backbone of the system of expense classification presented in this manual.

Brief definitions of the natural divisions of expense are given in this chapter. The integration of natural divisions into the complete scheme of expense summaries and expense centers is outlined in Chapter III, Structure of Expense Centers.

Revisions in Natural Divisions

The major revisions in the natural divisions are as follows:

Natural Division 17 - Equipment Costs has been changed to Equipment Rentals.
Natural Division 18 - Outside Maintenance and Equipment Service Contracts has been added.
Natural Division 15 - Donations has been eliminated and included in 08 - Unclassified.
Natural Division 03 - Advertising has been changed to Media Costs.

1. Natural Division 17 - Equipment Costs was provided in the former edition of the Retail Accounting Manual for the accumulation of all costs of major labor-saving equipment purchased for the purpose of substituting equipment for personnel. This natural division included the *depreciation, rentals*, and *repairs* applicable to major labor-saving equipment. That natural division has been changed from "Equipment Costs" to "Equipment Rentals" in order to identify specifically by proper natural division all costs of rental equipment in those expense centers where equipment represents a significant investment

Natural Divisions 13 - Depreciation and 18 - Outside Maintenance and Equipment Service Contracts have also been provided in those expense centers where *equipment represents* a significant investment so that all costs of owning or leasing and operating equipment are accumulated in those expense centers.

Where equipment is a significant investment, it is assumed that the maintenance of this equipment will also be significant, whether it is performed by the company's own personnel, through outside service contracts, or included under the terms of a lease for the rental of the equipment.

2. Natural Division 18 - Outside Maintenance and Equipment Service Contracts has been created specifically for those expense centers where repair or maintenance work is performed *by an outside company* whether under separate contract or on a per-job billing basis. Such contracts tend to have an ongoing basis by contrast, instead of the incidental purchase of a service on an occasional basis which should be charged to 07 - Services Purchased. The need for a separate natural division for outside maintenance and equipment service contracts resulted from the advent of sophisticated equipment, such as data processing equipment, point-of-sale devices, and mechanized receiving and distribution systems, the repair and maintenance of which requires a degree of expertise normally available only from outside sources.

Description of Natural Divisions

A summary of the expense items to be charged to each of the *natural divisions follows:*

Natural Division 01 - Payroll

The natural division Payroll includes, in general, all items of compensation for services actually rendered by employees of a company, such as salaries, wages, commissions, promotion money, and bonuses and prizes for contests and similar events. It also includes payments or provisions for vacations, sick leave or absence, separation, holiday and *military* leave, etc.

This account should not be charged with items of payroll which are to be capitalized; charged to the cost of *merchandise in manufacturing*, alteration, or service departments; or billed by outside agencies on a contractual or similar basis.

Natural Division 02 - Allocated Fringe Benefits

A transfer account has been provided to allocate fringe benefits out of their appropriate expense centers to all other expense centers with a payroll natural division (see Section C of this chapter).

Natural Division 03 - Media Costs

The natural division Media Costs (which is restricted to only one expense center, 420 -

Advertising) includes all costs of media, such as the cost of space in newspapers, periodicals, programs, streetcars, and billboards; the cost of radio and television station time; and the cost of direct mail advertising. It also includes direct outside costs of electros, cuts, mats and engraving related to the above.

This account should not be charged with the production costs incident to the preparation of the various types of media advertising; such costs should be charged to their appropriate natural divisions—such as payroll, supplies, services purchased, etc.

Natural Division 04 - Taxes

The natural division Taxes includes all taxes paid or accrued (with the exception of federal and state and local taxes based on income, which are treated as a deduction from income before taxes rather than as an operating expense).

Include as a charge to this natural division all state and local taxes (excluding taxes based on income); also include unemployment, social security, and disability taxes and all license fees of a similar character imposed by the various government agencies.

Natural Division 06 - Supplies

The natural division Supplies includes the cost of items consumed in the operation of the business, such as stationery and related items and materials for wrapping, packing, cleaning, repairing, etc. Also included in this natural division are various supplies used in the generation of heat, light, and power, such as the purchase of coal, oil, gas, water, and electricity.

In the interest of simplicity, supplies has been divided into two distinct categories: administrative supplies and functional supplies. Administrative supplies are those of a general nature, such as pencils, pens, paper clips, ordinary stationery, etc., and are therefore charged entirely to Expense Center 510 - Service and Operations Management. Functional supplies are those of a special nature — usually characteristic of and purchased specifically for a particular expense center — and therefore may be significant in amount, such as voucher checks, accounts receivable statements, wrapping or cleaning supplies, repair parts, sales checks, etc. — and should be charged to Natural Division 06 - Supplies in the specific expense center.

Natúral Division 07 - Services Purchased

The natural division Services Purchased includes charges for all non-professional services rendered by outsiders which aid, supplement, or substitute for the normal routine activity of the store. It consists exclusively of services performed by outsiders, whether they be companies, individuals, agencies, or independent contractors, provided the services are not chargeable to Natural Division 14 - Professional Services or 18 - Outside Maintenance and Equipment Service Contracts.

Examples of the types of service to be included in Services Purchased are:

Cleaning services
Delivery services
Shopping services
Detective and alarm services
Armored car services
Calculating, statistical, typing services, etc.
Collection agency services
Attorney fees for collection of past-due accounts receivable.

For fees paid to executive personnel agencies engaged for procurement of executives within each expense summary area, (see Special Explanation E 12).

This account should not be charged with any internal costs incidental to the performance of any of the above services; such items should be charged to the appropriate natural divisions.

Natural Division 08 - Unclassified

The natural division Unclassified includes all expenses not otherwise classified as chargeable to another natural division. Care should be exercised to limit charges to this account to items which are specified in the manual or which cannot be more appropriately charged elsewhere.

Examples of the type of charges to be included in this natural divison are:

Net cash shortages and bank service charges
Supper money
Policy adjustments
Cost of certain lost or damaged merchandise (see Special Explanation M 4)
Traffic fines
Want ads
Dues and subscriptions
Donations to qualified charities and institutions
Expense of interviewing and hiring executives including all interview travel expenses paid to applicants and moving allowances paid to executives hired (see Special Explanation E 12 a and b)
Loss on comparison and test purchases

Natural Division 09 - Travel

The natural division Travel includes all expenses arising as a result of domestic (whether local or out of town) and foreign travel of all employees of the company for business purposes. Such expenses include *transportation, hotel bills, meals, tips, and incidentals.*

Also include as a charge to this natural division local transportation expenses, such as transportation costs for travel between selling locations, warehouses, and/or the central organization, automobile hire for collectors, messengers, nurses, and items of a similar character. However, traveling expenses of applicants for positions should be charged to Natural Division 08 - Unclassified.

Also charge allowances to employees for use of their cars on company business (see Special Explanation E 6, Chapter IV).

Natural Division 10 - Communications

The natural division Communications includes all expenses relative to the cost of store and central organization communications, including *local and long distance telephone services*, all postage (except postage on parcel post delivery and postage on merchandise returned to vendors, which costs are to be charged back to the vendor and consequently credited to departmental purchases). Where rental charges are included with the normal utility billings, the rental should be included in this natural division. However, when a total communication system is leased or rented from outside sources, the charges incurred in connection with the rental should be included in Natural Division 17 - Equipment Rentals.

Natural Division 11 - *Pensions*

The natural division Pensions (which is restricted to only one expense center, 670 - Supplementary Benefits), includes all expenses relating to pensions, retirement allowances, and contributions to *pension funds, insured and trusteed plans, direct payments to retired employees.*

This natural division should not include internal administrative, clerical, or other costs incidental to the administration of pension and retirement programs, which should be charged to the applicable *natural division.*

Natural Division 12 - Insurance

The natural division Insurance includes the cost of all insurance, including employer *group medical and health insurance.* The cost of term insurance should be distributed over the term for which the protection is furnished.

Dividends and earnings on mutual and reciprocal insurance contracts should be credited to this natural division.

Natural Division 13 - Depreciation

The natural division Depreciation includes depreciation of the original cost of the capital assets employed in the operation of the business, such as:

Buildings
Leasehold improvements

Equipment
Furniture and fixtures

Depreciation is limited to those expense centers where equipment represents a significant investment in the operations of the expense centers.

Natural Division 14 - Professional Services

The natural division Professional Services includes, in general, the cost of any service of a highly specialized and professional character furnished by outside professional organizations, such as:

Legal fees
Accounting fees
Appraisal fees
Management services fees
Architectural fees (if not chargeable to a capital account)
Special surveys and studies

Professional services are distinguished from services purchased in that they are limited to those services which, by their very nature, are normally secured from outside specialists and experts qualified by training, and often licensed by governmental bodies or divisions.

Do not include financial or economic services which are regularly issued as publications, nor attorney fees for the collection of past due accounts receivable which should be charged to Natural Division 07 - Services Purchased.

Natural Division 16 - Bad Debts

The natural division Bad Debts (which is restricted to only one expense center, 330 - Collection) includes either actual bad debts written off or the provision relating to an allowance for doubtful accounts. It also includes losses due to bad checks and fraudulent purchases, less recoveries.

Natural Division 17 - Equipment Rentals

The natural division Equipment Rentals includes the costs of all equipment rented or leased and is restricted to those expense centers where equipment represents a significant investment in the operation of that expense center.

The infrequent, incidental rental of equipment, such as chairs for fashion shows, is considered a miscellaneous expense item and should be charged to Natural Division 08 — Unclassified of the expense center using the equipment. It is not to be considered as equipment rental in the same sense that major items of equipment are rented or leased for the performance of the regular, repetitive work of an expense center.

Natural Division 18 - Outside Maintenance and Equipment Service Contracts

A new natural division has been established because of the increase in recent years in outside contractual arrangements for servicing and maintaining equipment. Natural Division 18 has been restricted to those expense centers where equipment represents a substantial investment in the operations of the expense center. If this equipment is being leased, the maintenance may be provided for under the terms of the lease. If the maintenance is stated separately in the lease, it should be charged to Natural Division 18; if not stated separately, it should be included in Natural Division 17.

Natural Division 20 - Real Property Rentals

The natural division Real Property Rentals (which is restricted to only one expense center, 020 - Real Estate, Buildings, and Building Equipment) includes expenses incurred or rent paid for real estate used in the operation of the business. Income received for the subletting of rented space (other than the licensing or leasing of a department) should be a credit against the charges to this natural division.

Do not include in this natural division expenses such as taxes, interest, supplies, repairs, insurance, and depreciation when paid directly by the store. These items should be charged to the applicable natural divisions. This natural division applies to real estate only.

Natural Division 90 - Expense Transfers In
Natural Division 91 - Expense Transfers Out

For further discussion of transfer accounts, *see* Section C in this chapter.

Natural Division 92 - Credits and Outside Revenues

This natural division consists of two categories:

1. Credits. There are occasions when an expense center should be *credited* with amounts which are either debited to accounts outside of the operating expense ledger or to operations not directly associated with carrying on the business. In such cases the expense center will be *credited through* this natural division regardless of whether the credit applies to one or more of the basic natural divisions. For example, the following are among the types of transactions which require the utilization of Natural Division 92:

a. Cost of merchandise (as in the case of workroom departments and indirect manufacturing departments)
b. Capital accounts (for improvements made by the company's regular employees)
c. Tenants and lessees (for services rendered).

2. Outside Revenues. Several items of revenues received by the company which are not classified as revenues or other income are to be included as a credit to operating expense in the particular expense center via this *natural division. Examples of these types of* transactions are:

a. Income from work performed as a service bureau
b. Check cashing and utility bill service fees
c. Layaway handling charges and charges for CODs
d. Sales of used display supplies, wastepaper, and other salvage, and sales of shopping bags, gift wrap, etc. (when not operated as a costselling department)
e. Income from vending machines, locker rentals, pay toilets, etc.
f. Delivery charges to customers
g. Money order and traveler's check fees.

Note that credit handling and service charge income is not included in this natural division (see Special Explanations E 14 and E 19e, Chapter IV).

APPENDIX C

WORKROOM AND COST DEPARTMENT OPERATING STATEMENT -- LINE ITEM EXPLANATIONS

Explanation of Items (Lines) in the Operating Statement (See Exhibit 1)

1. Revenue

Only actual amounts received from customers should be considered as revenue for the cost and workroom departments.

a. In cost selling departments, customer sales revenue should be treated the same as in any retail department.

b. In indirect manufacturing departments, there should be no sales directly to customers. The work processed should be transferred to a regular retail department or to a cost selling department for sale to customers.

c. In merchandise service workrooms, the income received from customers is generally recorded on a sales check in the retail selling department. At the end of the accounting, these sales should be accumulated and credited at this line (or "item") on the merchandise service workroom statement.

All bookkeeping transfers for work done for other departments in the store should be treated as reductions of the cost of operating in the cost department.

2. Inventory of Materials and Supplies

Physical inventory valued at cost or market, whichever is lower, at the beginning of the accounting period.

3. Purchases of Materials and Supplies

This account should include all materials and supplies plus inward transportation charges, less purchase discount.

4. Material and Labor Services Purchased

Include any invoices covering services purchased from outside contractors for work that is normally performed in a store workroom, and constitutes the principal activity of the workroom. For example, draperies and slip covers.

5. Total

This is the total of Lines 2, 3, and 4.

6. Inventory of Materials and Supplies

Physical inventory at the end of the period valued as in Item 2.

7. Materials and Supplies Used

This is the difference between Lines 5 and 6.

8. Direct Labor

Includes direct payroll incurred in production or processing of material or rendering the service involved. This consists of all operators, machine operators, repair men, tailors, furniture finishers, beauty salon operators, etc.

9. Indirect Labor

Includes payrolls indirectly involved in the processing of merchandise: that is, supervision, clericals, fitters, and examiners.

10. Total Labor

This is the total of Lines 8 and 9.

11. Work-in-Process Adjustment

This is the difference between the actual or estimated value of material and labor applicable to goods in process of completion at the beginning and end of the period. Where the closing work-in-process inventory is greater than the beginning work in process inventory, the difference will reduce the material and labor costs for the period and should be entered as a credit. Where the opening inventory is greater than the closing inventory, the amount should be entered as an additional cost.

12. Total Materials and Labor

This is the total of Lines 7 and 10, and plus or minus Line 11.

13. Space Charge

Cost, workroom, and manufacturing departments should be charged for space occupied (other than selling space) where the product made or service performed becomes part of the cost of sales of a department servicing store customers as a regular selling department. The amount so determined should be transferred to the cost departments from Expense Center 020 - Real Estate. It should represent a composite of rent, taxes depreciation, etc., as applicable. This charge is to be made whether or not occupancy is pro-rated to retail selling departments.

Charge (Line 13) the space charges applicable to production and non-selling area occupied by these departments. Selling space occupied by the cost department should be reflected on Line 28 statistically, rather than by an actual transfer. This space should be charged at a weighted rate in the manner used for all retail selling departments.

14 Supplies

This includes functional and miscellaneous supplies not consumed in the direct productive process, such as needles, tape measures, scissors, etc., used in an alteration workroom. However, thread would be charged to Purchases of Material and Supplies, line 3.

15. Utilities

Charge the cost of utilities consumed in the direct production process, where utility consumption constitutes a significant portion of the expense inherent in the workroom operation. Examples: Fur storage, shoe repair, etc.

16. Use of Cars and Trucks

Includes charges for the use of owned and hired vehicles.

17. Carfare and Travel

Charge the cost of carfare and traveling expenses, excluding the use of owned and hired vehicles, which are charged to Line 16.

18. Services Purchased

Includes charges from outside agencies for consultation fees, instruction, etc.

19. Repairs to Equipment

Charge the cost of repairs of equipment and machinery used in the manufacturing process of the workroom.

20. Payroll Taxes and Supplementary Benefits

Charge the cost of unemployment and workmen's compensation insurance and FICA on direct and indirect labor, plus such supplementary benefits as are applicable to production costs.

21. Insurance

This account includes fire and theft insurance, particularly in the case of fur storage departments.

22. Depreciation

Charge the depreciation on operating equipment and equipment of a specialized nature which is specifically related to the workroom operation.

NOTE: In the case of all the direct manufacturing charges, lines 13 through 22, which represent debits to the cost of production of sales of the cost department, credit Natural Division - 92 of the Expense Center(s) from which these charges are transferred.

With respect to indirect manufacturing departments and merchandise service workrooms, some stores have been in the practice of charging taxes other than payroll taxes and indirect administrative expenses, such as office costs and executive salaries, to workroom costs. The altogether sensible theory for doing so is: If workroom cost data are used to determine, among other things, whether or not the workroom should be run by the store or leased to an outside contractor, these overhead costs must be considered. Certainly an outside contractor would include similar costs in the charge for doing this work for the store. However, there are so many ways to prorate such overhead costs, and so much detail is involved in preparing many monthly journal entries to credit various overhead expense accounts and charge workroom costs, that the problem of standardization would probably be solved better by eliminating most overhead charges from workroom costs. This will not and should not deter stores from noting on their internal workroom statements that if the workroom had been charged with all overhead, the workroom loss would have been so much greater.

23. Total Other Manufacturing Charges

This is the total of Lines 13 through 22.

24. Total Cost of Production

This is the total of Lines 12 and 23.

25. Credits from Transfers

Those transfers which represent work done for departments of the store other than the parent departments are shown as reductions of the cost of production of the cost department. Also include credit for items manufactured for selling departments, whether they are principal retail departments of the workroom or not. The estimated cost should be charged to the selling departments' cost purchases. Work done for expense centers—such as display, porters' uniforms, etc.—will be credited also to Line 25. All transfers should represent only the actual cost of the work done. In most cases, it is necessary to use estimated costs, but wherever estimated costs are used, they should be reviewed regularly for accuracy. In no case should a theoretical profit be placed on top of the cost.

26. Net Cost of Production

This is the difference between Lines 24 and 25.

27. Profit or Loss-Indirect Manufacturing Departments and Merchandise Service Workrooms

Indirect Manufacturing Departments

The profit or loss is the same as net cost of production, Line 26. The profit or loss of a manufacturing department should be charged to the cost purchases of the selling departments buying its products, in proportion to the transfers to those departments during the period. The operating profit or loss reflects errors in estimating the cost of the original transfers.

Merchandising Service Workrooms

This is the difference between Lines 1 and 26.

The profit or loss of a merchandise service workroom is to be distributed as workroom cost to the parent selling departments using the service in proportion to the amount of work done for each parent department. Wherever possible, the factor to be used in measuring the proportion of work done should be a work unit of time. Standard units of time for each element in every workroom operation should be established. For example: Enlarging the armholes in a woman's coat might have a standard time of forty minutes, and, assuming ten minutes represents one work unit, would represent four work units. The net cost of production, Line 26, should be distributed to the parent departments on the basis of the work units. Then, each parent department should receive credit for the amount of revenue it has obtained, and the difference between its portion of the net cost of production and such revenue represents the amount of workroom cost to the individual selling department.

The following example will illustrate the distribution of workroom costs:

Assume net cost of production (Line 26) is $2,000 and income from sales to customers (Line 1) is $500, out of which $50 is applicable to Department 30 and $450 to Department 35. The loss (Line 27) is $1,500. Out of a total of 1,000 work units produced during the period, Departments 30 and 35 accounted for 200 and 800 work units, respectively. The $2,000 (net cost of production) should be distributed to Departments 30 and 35 in the same ratio as the work units of the departments are to the total work units—that is, $400 should be allocated to Department 30 and $1,600 to Department 35. These amounts are then reduced by the income from sales to customers, $50 and $450, respectively. The net charges to Department 30 are $350 and to Department 35, $1,150. These total department charges of $1,500 are equal to the amount of the profit or loss (Line 27).

28. Operating Expenses (Cost Selling Departments Only)

The charging of total store expenses to the cost departments should be done only in the case of cost selling departments and in the same manner used for all retail selling departments. This section of the statement will not be used in the case of manufacturing departments or merchandise service workrooms.

It is recommended that such allocations of expense center costs as may be directly associated with specific expense centers in this manual be identified on the cost selling department operating statement by individual headings under 28a-28b, etc. The charges to operating expenses of cost selling departments which cannot be specifically related to individual expense centers are to be combined and shown under a general caption.

All cost selling departments selling payroll included here shall also be included in cost department statements statistically rather than by a transfer entry.

29. Total Operating Expenses

This is the total of Lines 28a, b, c, etc.

30. Operating Profit or Loss-Cost Selling Departments

This is the difference between Line 1 and the total of Lines 26 and 29.

The profit or loss of a cost selling department, Line 30, is not to be distributed to any other department, but is treated the same as the profit or loss in any retail-selling department.

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